

Inspector General

United States
Department of Defense



DoD Components' Use of Global War on Terror
Supplemental Funding Provided for Procurement and
Research, Development, Test, and Evaluation

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 08 APR 2009		2. REPORT TYPE		3. DATES COVERED 00-00-2009 to 00-00-2009	
4. TITLE AND SUBTITLE DoD Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Department of Defense Inspector General, ODIG-AUD, 400 Army Navy Drive, Arlington, VA, 22202-4704				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 71	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Additional Information and Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Audits

To suggest ideas for or to request future audits, contact the Office of the Deputy Inspector General for Auditing at (703) 604-9142 (DSN 664-9142) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704



Acronyms and Abbreviations

AFAA	Air Force Audit Agency
FMR	Financial Management Regulation
GAO	Government Accountability Office
GWOT	Global War on Terror
IG	Inspector General
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
RDT&E	Research, Development, Test, and Evaluation
SOP	Standard Operating Procedure



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

April 8, 2009

MEMORANDUM FOR DISTRIBUTION

SUBJECT: DoD Components' Use of Global War on Terror Supplemental Funding
Provided for Procurement and Research, Development, Test, and Evaluation
(Report No. D-2009-073)

We are providing this report for review and comment. We considered comments from the Office of the Under Secretary of Defense (Comptroller); the Department of the Army, the Department of the Navy, the Marine Corps, and Washington Headquarters Services.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Assistant Secretary of Army (Financial Management and Comptroller) and the Acting Director, Washington Headquarters Services agreed with the recommendation addressed to them. The Director, Investments Directorate, Office of the Under Secretary of Defense (Comptroller) and Commandant of the Marine Corps, Headquarters Marine Corps agreed with recommendations addressed to them; however, their comments did not support their agreement. The Assistant Secretary of the Navy (Financial Management and Comptroller) disagreed with the recommendation addressed to it. Therefore, we request that the Director, Investments Directorate, the Office of the Under Secretary of Defense (Comptroller); the Assistant Secretary of the Navy (Financial Management and Comptroller); and the Commandant of the Marine Corps, Headquarters Marine Corps provide additional comments on Recommendations 1., 3., and 4., respectively, by May 8, 2009.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send your comments in electronic format (Adobe Acrobat file only) to audacm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9201 (DSN 664-9201).

A handwritten signature in black ink, reading "Richard B. Jolliffe", is positioned above the typed name.

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management

DISTRIBUTION:

UNDER SECRETARY OF DEFENSE (COMPTROLLER)/DoD CHIEF FINANCIAL
OFFICER
COMMANDER, U.S. SPECIAL OPERATIONS COMMAND
CHIEF, NATIONAL GUARD BUREAU
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT
AND COMPTROLLER)
SPECIAL ASSISTANT FOR CHEMICAL BIOLOGICAL DEFENSE AND
CHEMICAL DEMILITARIZATION PROGRAMS
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY
DIRECTOR, WASHINGTON HEADQUARTERS SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
NAVAL INSPECTOR GENERAL



Results in Brief: DoD Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation

What We Did

We reviewed 130 sample dollar points associated with Global War on Terror supplemental and bridge funds provided to the Army, Navy, Marine Corps, Defense-wide agencies, National Guard, and Reserve Components to determine whether the funds were obligated for the efforts stipulated by Congress and used in support of the Global War on Terror.

What We Found

Of the 130 sample points, we could not determine whether 59 sample dollar points, associated with \$6.23 billion in appropriated funds, were obligated for the purposes authorized by Congress or used in support of the Global War on Terror. We concluded that the Office of the Under Secretary of Defense (Comptroller) and four DoD Components (the Army, the Navy, the Marine Corps, and the Washington Headquarters Service) did not consistently maintain adequate audit trails or separate Global War on Terror supplemental and bridge funding from annual and other supplemental appropriations in their accounting systems.

What We Recommend

We recommend that the Office of the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer follow procedures requiring that financial transactions be traceable to individual source records. We also recommend that the Director, Investments Directorate, Assistant Secretary of the Army (Financial Management and Comptroller); the Director, Office of Budget, Operations Division, Assistant Secretary of the Navy (Financial Management

and Comptroller); the Deputy Commandant for Programs and Resources, Headquarters Marine Corps; and the Director, Financial Management Directorate, Washington Headquarters Service draft and finalize standard operating procedures for reporting investment contingency operations costs that include a requirement that budget officers separately identify supplemental, bridge, and annual appropriated funds in their accounting systems and follow procedures requiring that financial transactions be traceable to individual source records.

Management Comments and Our Response

The Assistant Secretary of Army (Financial Management and Comptroller) and Director Washington Headquarters Service agreed with the recommendations. The Director, Investments Directorate, Office of the Under Secretary of Defense (Comptroller) and Commandant of the Marine Corps, Headquarters Marine Corps agreed with recommendations; however, their comments were only partially responsive. The Assistant Secretary of the Navy (Financial Management and Comptroller) disagreed with recommendations addressed to the Navy and Marine Corps. We request that the Director, Investments Directorate, Office of the Under Secretary of Defense (Comptroller); the Assistant Secretary of the Navy (Financial Management and Comptroller); and the Commandant of the Marine Corps, Headquarters Marine Corps provide additional comments on Recommendations 1., 3., and 4., respectively, by May 8, 2009.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Investments Directorate, Under Secretary of Defense (Comptroller)	1.	
Assistant Secretary of the Army (Financial Management and Comptroller)		2.a., 2.b.
Assistant Secretary of the Navy (Financial Management and Comptroller)	3.	
Commandant of the Marine Corps, Headquarters Marine Corps	4.	
Director, Washington Headquarters Services		4.

Please provide comments by May 8, 2009.

Table of Contents

Results in Brief	i
Introduction	1
Objectives	1
Background	1
Review of Internal Controls	4
Finding. DoD Financial Controls Over Global War on Terror Spending	5
Management Actions	9
Management Comments on the Finding and Appendices and Our Response	9
Recommendations, Management Comments, and Our Response	9
Appendices	
A. Scope and Methodology	15
Prior Coverage	18
B. Sampling Methodology	21
C. Apportionment Process for Supplemental and Bridge Funds	26
D. Glossary	29
E. Management Comments on the Finding and Appendices and Our Response	31
Management Comments	
Office of the Under Secretary of Defense (Comptroller)	35
Department of the Army	53
Department of the Navy	55
Marine Corps	57
Washington Headquarters Services	62

THIS PAGE LEFT INTENTIONALLY BLANK

Introduction

Objectives

The primary audit objective was to evaluate the adequacy of Army, Navy, Marine Corps, Defense-wide agencies, National Guard, and Reserve Components financial controls over the use of Global War on Terror (GWOT) supplemental and bridge funding provided for procurement and research, development, test, and evaluation (RDT&E). We also determined whether the funds were placed on contracts and used for the purposes stipulated by Congress. See Appendix A for a discussion of the scope and methodology and prior coverage related to the audit objectives.

Background

This report is the last in a series of reports on the adequacy of DoD financial controls over the use of GWOT supplemental funding provided for procurement and RDT&E. This report addresses the adequacy of the Army, Navy, Marine Corps, Defense-wide agencies, National Guard, and Reserve Components financial controls over the use of GWOT funding provided for procurement and RDT&E. The first report addressed the Air Force's financial controls for issuing, identifying, and using GWOT supplemental funding. The second report addressed the internal controls for preparing the DoD Supplemental and Cost of War Execution Report pertaining to obligations of procurement and RDT&E funds.

Global War on Terror

Following the terrorist attacks of September 11, 2001, the United States initiated military operations to combat terrorism in the United States, Iraq, and Afghanistan. Military operations related to Iraq and Afghanistan are known as Operation Iraqi Freedom and Operation Enduring Freedom, respectively. Efforts to defend the United States from airborne attacks and to maintain United States air sovereignty are referred to as Operation Noble Eagle. The audit team referred to these three operations collectively as GWOT.

Funding Provided for the Global War on Terror

The Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) considers GWOT a contingency operation and requests funding from Congress for GWOT through supplemental and bridge appropriations. In response to DoD requests for GWOT funding to cover the costs associated with conducting operations in support of GWOT, Congress enacts supplemental and bridge appropriations. Supplemental appropriations are additions to regular annual appropriations and provide budget authority beyond the original estimates for programs or activities that are too urgent to be postponed until the next regular appropriation. Bridge funds are funds contained within an annual appropriation to cover contingency operations costs for the coming fiscal year. From August 2002 through December 2005, Congress provided the DoD \$28.69 billion in supplemental and bridge funding for unclassified procurement and RDT&E activities.

The Air Force received \$1.50 billion of the \$28.69 billion. The following table shows how much of the remaining \$27.19 billion the other DoD Components received for procurement and RDT&E.

Table 1. Funding for the Global War on Terror August 2002 through December 2005

DoD Components	Procurement (\$ in billions)	RDT&E (\$ in millions)
Army	\$17.62	\$65.17
Navy	1.45	52.39
Marine Corps	5.26	0
Defense-wide agencies	1.52	173.10
National Guard and Reserve Components	1.05	0
Total	\$26.90	\$290.66

Apportionment Process

According to an OUSD(C) representative, the OUSD(C) issues an apportionment request for supplemental funding to the Office of Management and Budget. In addition, the OUSD(C) representative stated that the Office of Management and Budget reviews and approves the request and forwards it to the OUSD(C) Investment Directorate for disbursement of the funds to the DoD Components. A flowchart of the OUSD(C) apportionment process can be found in Appendix C of this report.

Cost of War Reporting

According to Government Accountability Office (GAO) Report No. GAO-05-882, “Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs,” September 2005, the DoD tracks obligations made to support GWOT and develops a monthly Supplemental and Cost of War Execution Report, which budget officers use to formulate future budget requests to fund GWOT and senior DoD leadership uses to discuss the cost of war. This cost of war report identifies the monthly and cumulative GWOT obligations by Service, Defense agency, contingency operation, and appropriation. Using these reports, the Comptroller General of the United States provides Congress with quarterly updates on the costs of the war.

Statistical and Judgmental Samples

We statistically sampled approximately \$28.69 billion in supplemental and bridge funds provided to the DoD from August 2002 through December 2005 for unclassified procurement and RDT&E activities to determine whether the DoD Components placed the funds on contracts for the purposes stipulated in congressional legislation. The statisticians in the Quantitative Methods and Analysis Division designed and selected a random sample of 600 dollar points from the universe of \$28.69 billion in supplemental and bridge funds provided to DoD for procurement and RDT&E. After our review of the 28 Air Force sample dollar points and based on the preliminary results of our review of

the other DoD Components, we revised the audit scope and conducted a judgmental sample from the remaining sample dollar points selected in the statistical sample. We selected 158 sample dollar points, including the 28 Air Force sample dollar points, in the judgmental sample. This report discusses the remaining 130 sample dollar points selected in the judgmental sample. A detailed description of the sample methodology can be found in Appendix B of this report.

DoD Components' Results

The following table shows the results of our review of the 130 sample dollar points associated with GWOT supplemental and bridge funding provided to the Army, Navy, Marine Corps, select Defense-wide agencies, National Guard, and Reserve Components.

Table 2. Results of DoD Components' Sample Dollar Point Review

DoD Components	Number of Sample Dollar Points	Obligated for the Purposes Stipulated ¹ and Used in Support of GWOT			Not Obligated
		Yes	No	Ind. ²	
Army	60	17	0	43	0
Navy	3	1	0	2	0
Marine Corps	40	27	0	13	0
Defense-wide agencies					
U.S. Special Operations Command	4	3	0	0	1
Chemical and Biological Defense Office	1	1	0	0	0
Defense Information Systems Agency	1	1	0	0	0
Missile Defense Agency	1	1	0	0	0
Washington Headquarters Service	1	0	0	1	0
National Guard and Reserve Components					
Army National Guard	11	10	0	0	1
Air National Guard	6	5 ³	0	0	1
Army Reserves	2	2	0	0	0
Totals	130	68	0	59	3

¹ This objective refers to whether sample dollar points were obligated for the purposes stipulated by Congress in the supplemental and bridge appropriations.

² Indeterminable sample dollar points are those for which we could not determine whether the supplemental and bridge funds were obligated for the purposes stipulated by Congress or supported GWOT.

³ Air National Guard budget officers used the bridge funds for the five sample dollar points for homeland defense and hurricane recovery efforts, which were congressionally directed.

Of the 130 sample dollar points, only 2 sample dollar points were associated with RDT&E funding, the remaining 128 sample dollar points were associated with procurement funds. See the finding for a discussion of the Army, Navy, Marine Corps, and Washington Headquarters Service financial control weaknesses we identified during our review of the sample dollar points. We determined that the Army, Navy, and Marine Corps sample dollar points not addressed in the finding discussion were obligated for the purposes stipulated in congressional language and supported GWOT. In addition, we determined that the U.S. Special Operations Command, Chemical and Biological Defense Office, Defense Information Systems Agency, Missile Defense Agency, Army National Guard, Air National Guard, and Army Reserves sample dollar points were obligated for the purposes stipulated in congressional language and supported GWOT. Based on the sample points we reviewed, we determined that the U.S. Special Operations Command, Chemical and Biological Defense Office, Defense Information Systems Agency, Missile Defense Agency, Army National Guard, Air National Guard, and Army Reserves financial controls over the use of procurement and RDT&E supplemental and bridge funding provided for GWOT were adequate. A description of the methodology the audit team used to track the sample dollar points from the public laws through to the obligation documents can be found in Appendix A of this report. For a detailed discussion of the statistical and judgmental sampling methodologies, see Appendix B.

Review of Internal Controls

We identified internal control weaknesses in the OUSD(C) and the DoD Components' financial controls over the use of supplemental and bridge funding provided for procurement and RDT&E, as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. Although the internal controls outlined in the DoD Financial Management Regulation 7000.14-R, volume 1, chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," August 2000,¹ and volume 12, chapter 23, "Contingency Operations," September 2005,² were adequate for maintaining audit trails and for capturing costs associated with contingency operations, the OUSD(C) and DoD Components did not consistently follow them for the sample dollar points we reviewed. Implementing the recommendations in this report will improve financial and internal controls so that the DoD Components can accurately report on the cost of the war. We will provide a copy of this report to the senior official responsible for internal controls in the OUSD(C) and DoD Components reviewed.

¹ DoD FMR 7000.14-R, volume 1, chapter 3, was updated in September 2007. The criteria found in volume 1, chapter 3 was subsequently incorporated into volume 6A, chapter 2 and contains the same requirements as the previous version. This update did not affect the results of our audit.

² The audit team used the September 2005 version of the FMR. The September 2007 update version contained the same criteria that we used. This update did not affect the results of our audit.

Finding. DoD Financial Controls Over Global War on Terror Spending

The OUSD(C) and four DoD Components (Army, Navy, Marine Corps, and Washington Headquarters Service) financial controls over the use of procurement and RDT&E supplemental and bridge funding provided for GWOT need improvement. The financial controls over GWOT funding need improvement because the OUSD(C) and DoD Components did not ensure compliance with DoD Financial Management Regulation (FMR) procedures. Specifically:

- the OUSD(C) and DoD Components did not follow procedures for establishing audit trails, and
- the DoD Components did not follow procedures for capturing costs associated with contingency operations.

As a result, the DoD Components did not have adequate internal controls to verify that funds placed on contracts were used for the purposes stipulated in the congressional language, which authorized the supplemental and bridge funding for GWOT. Further, the DoD Components could not accurately report to Congress their progress in obligating GWOT funds.

DoD and Office of Management and Budget Guidance for Audit Trails, Capturing Costs, and Internal Controls

DoD FMR 7000.14-R, volume 1, chapter 3, and volume 12, chapter 23, and Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, provide guidance on establishing audit trails, accounting for funds provided for contingency operations, and management’s responsibility for internal control, respectively.

DoD Financial Management Regulation on Audit Trails

The FMR requires that financial transactions within the accounting system must be adequately supported with pertinent documents and source records. In addition, it states that all transactions, including those that are computer-generated and computer-processed, must be traceable to individual source records. The FMR states that the adequacy of an audit trail can be tested by tracing a transaction forward from the source or back from the result and verifying the amount recorded or reported.

DoD Financial Management Regulation on Contingency Operations

The FMR requires that costs incurred in support of contingency operations be properly identified and recorded through the use of controls, accounting systems, and procedures. It states that each Service Component command should collect all applicable costs related to specific contingency operations. To do this, the FMR specifies that, upon being

alerted of an impending contingency operation, each participating DoD Component should establish a unique special program code to capture costs. To ensure that the costs of contingency operations are accurately reported, the FMR further states that each DoD Component will develop and publish a standard operating procedure (SOP) or other supplemental guidance to cover Component-specific items for cost reporting and disseminate that guidance to the appropriate subordinate organizations.

Office of Management and Budget Circular A-123

Office of Management and Budget Circular A-123 identifies the objectives of internal control as “effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.” The Circular states that management has a fundamental responsibility to develop and maintain effective internal controls. The Circular requires that effective internal controls over financial reporting provide reasonable assurance that misstatements, losses, or noncompliance with applicable laws and regulations, material in relation to financial reports, would be prevented or detected.

Sample Results

In reviewing 104 sample dollar points at the 4 DoD Components, we identified internal control weaknesses with the OUSD(C) and these DoD Components’ accountability and reporting of GWOT costs. The OUSD(C) did not consistently follow procedures for establishing an audit trail needed to track GWOT supplemental and bridge funds provided for procurement activities to the DoD Components. Specifically, the OUSD(C) did not separate conference report line items when issuing funds to three of the DoD Components. Similarly, the DoD Components did not maintain an audit trail or separate supplemental, bridge, and annual funds in their accounting systems. As a result, we were unable to determine whether the 4 DoD Components used supplemental and bridge funds for 59 of the 104 sample dollar points, associated with \$6.23 billion in appropriated funds, for the purposes authorized by Congress or in support of GWOT. The following summarizes the results of our review.

Army

Army budget officers either did not maintain an audit trail or did not separate supplemental and bridge funds from annual and other supplemental funds in their accounting systems to track funds to obligation documents for 38 of the 60 Army sample dollar points we reviewed. Specifically, for:

- 34 of the 38 sample dollar points, associated with \$2.63 billion in appropriations, Army budget officers at the program offices did not differentiate GWOT supplemental and bridge funds from annual funds in the accounting system;
- 1 of the 38 sample dollar points, associated with \$344.69 million in appropriations, the Army budget officer at the program office did not separate GWOT supplemental funds from other supplemental funds in the accounting system; and

- 3 of the 38 sample dollar points, associated with \$302.55 million in appropriations, Army budget officers at the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) did not maintain an audit trail to show which Army program offices received the GWOT supplemental funds.

In addition, the OUSD(C) combined supplemental and bridge funds for multiple conference report line items on funding documents issued to the Army for 5 of the 60 Army sample dollar points we reviewed. Specifically, the OUSD(C) combined GWOT supplemental and bridge funds for different conference report line items on the funding documents issued to the Army for four of the five sample dollar points, associated with \$1.29 billion in appropriations. For the remaining sample dollar point, associated with \$42.2 million in appropriations, the OUSD(C) did not maintain an adequate audit trail to show which Army program received GWOT bridge funds.

Navy

At one program office, the Navy budget officer did not separate GWOT supplemental funds from annual funds in the accounting system for one of the three Navy sample dollar points we reviewed, associated with \$262 million in appropriations. In addition, the OUSD(C) combined different conference report line items together on the funding document issued to the Navy for another of the three Navy sample dollar points, associated with \$15.9 million in appropriations. Subsequently, when the Navy issued the bridge funds to the program office, the program office loaded the bridge funds into the accounting system the same way they received them and combined bridge funds for two conference report line items.

Marine Corps

Marine Corps budget officers at program offices did not separate GWOT supplemental and bridge funds from annual and other supplemental funds in the accounting system for 10 of the 40 Marine Corps sample dollar points we reviewed. Specifically, Marine Corps budget officers combined GWOT supplemental and bridge funds with annual funds in the accounting system for 9 of the 10 dollar points, associated with \$897.29 million in appropriations. For the other sample dollar point, associated with \$72 million in appropriations, Marine Corps budget officers combined bridge funds with supplemental funds in the accounting system. In addition, OUSD(C) combined bridge funding for multiple conference report line items on funding documents provided to the Marine Corps for another 3 of the 40 sample dollar points, associated with \$376.7 million in appropriations.

Washington Headquarters Service

Washington Headquarters Service budget officers did not separate GWOT supplemental funds from annual funds in the accounting system for the one sample dollar point associated with \$25.2 million in appropriations that we reviewed.

Capturing Costs Associated With Contingency Operations

We were unable to determine the use of the supplemental and bridge funds for 59 sample dollar points because the OUSD(C) and four DoD Components did not follow existing procedures for establishing audit trails and capturing contingency operations costs to include using special program codes to capture those costs, as required in the DoD Financial Management Regulation. A discussion of the breakdown in the internal controls at OUSD(C) and the four DoD components follows.

Office of the Under Secretary of the Defense Comptroller

The OUSD(C) did not consistently separate supplemental and bridge funds for conference report line items when it disbursed funds to the DoD Components and did not adhere to the FMR requirement for establishing audit trails so that financial transactions are traceable to individual source records. From a financial management and congressional reporting perspective, the DoD Components need to have the GWOT funds separated by conference report line item in order to prepare DoD annual budget justification materials and to meet congressional reporting requirements.

Army

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) did not issue guidance for capturing procurement and RDT&E costs to support contingency operations or require Army budget officers to establish and use special program codes in their accounting systems to differentiate between the use of supplemental, bridge, and annual funds. In addition, budget officers did not adhere to the FMR requirement that DoD Components maintain an audit trail so that financial transactions are adequately supported with pertinent documents and traceable to source records.

Navy

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) did not issue guidance for capturing contingency operation costs or require Navy budget officers to use special program codes to differentiate between the use of supplemental and annual funds in their accounting systems.

Marine Corps

The Programs and Resources Department, Headquarters Marine Corps established guidance requiring Marine Corps budget officers to use special interest codes to capture costs associated with GWOT. However, the guidance did not require Marine Corps budget officers to separate supplemental, bridge, and annual funds in the accounting system. Because supplemental, bridge, and annual funds were not separated in the accounting system, we could not trace the funds from the accounting system to source documents to determine how the supplemental and bridge funds were used.

Washington Headquarters Service

The Financial Management Directorate, Washington Headquarters Service did not issue guidance requiring budget officers to use special program codes to differentiate supplemental and bridge funds from annual funds in the accounting system.

Effects on Congressional Reporting Requirement

As a result of the OUSD(C) and four DoD Components either not maintaining adequate audit trails to trace supplemental and bridge funds or not using special program codes to separate GWOT supplemental and bridge funds in their accounting systems, the Army, Navy, Marine Corps, and Washington Headquarters Service financial communities did not have the means to ensure that supplemental and bridge funds placed on contracts were used for the purposes stipulated in congressional language or supported GWOT. Consequently, the four DoD Components were not able to track obligations incurred to support GWOT through the accounting system and could not therefore accurately report to Congress their progress in obligating supplemental and bridge funds.

Management Actions

Army

The Investments Directorate, Assistant Secretary of the Army (Financial Management and Comptroller) is drafting SOPs for capturing and reporting procurement and RDT&E costs in support of contingency operations. The draft guidance states that beginning in FY 2008, funding authorization documents will include special program codes to indicate whether the funds are annual or GWOT. The draft guidance does not require Army budget officers to establish a special program code to differentiate supplemental, bridge, and annual funds in the accounting system. As of March 2009, the Army had not finalized the SOPs.

Navy

On September 29, 2008, Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) issued supplemental guidance for accounting for contingency operation funds. The guidance, however, does not require the Navy comptroller and budget personnel to establish unique codes in the accounting systems to differentiate between annual, supplemental, and bridge funds.

Management Comments on the Finding and Appendices and Our Response

Summaries of management comments on the finding and appendices of this report and our responses are in Appendix E.

Recommendations, Management Comments, and Our Response

- 1. We recommend that the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer consistently adhere to procedures requiring financial transactions**

to be traceable to individual source records by separating Global War on Terror supplemental and bridge appropriations by conference report line item on the funding documents issued to the DoD Components to enable DoD Component budget officers to obligate, track, and report on their use of Global War on Terror funds, in accordance with DoD Financial Management Regulation 7000.14-R, volume 6A, chapter 2, “Financial Reports, Roles and Responsibilities,” November 2008.

Office of the Under Secretary of Defense Comments

The Director, Investments Directorate, OUSD(C) agreed with the report recommendation, stating that the OUSD(C) has been and will continue to issue funds to the DoD Components by conference report line item and not by budget line item. He stated that the annual budget has been and will continue to be issued separately from the supplemental budget and therefore is traceable to individual source records.

Our Response

We did not assert in the finding that the OUSD(C) combined annual and supplemental funds when it issued the funds to the DoD Components. The finding stated that OUSD(C) combined supplemental and bridge funds for different conference report line items when it issued funds to the DoD Components. Because the OUSD(C) combined conference report line items into one funding amount, there was no audit trail to permit transactions to be traced to source documentation. Without an audit trail to facilitate transparency in the accounting systems, there is no assurance that funds are being used for the purposes stipulated by Congress and that reports to Congress on GWOT obligations are accurate. Accordingly, we request that the Director, Investments Directorate, OUSD(C) provide additional comments to the recommendation in response to the final report.

2. We recommend that the Director, Investments Directorate, Assistant Secretary of the Army (Financial Management and Comptroller):

a. Revise the draft standard operating procedures for the reporting of investment contingency operations costs, before finalizing, to require Army budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to enable the budget officers to accurately track and report obligations against each funding source, to conform with requirements in the DoD Financial Management Regulation 7000.14-R, volume 12, chapter 23, “Contingency Operations,” September 2005.

Assistant Secretary of the Army (Financial Management and Comptroller)

The Acting Assistant Secretary of the Army (Financial Management and Comptroller) agreed with the recommendation. He stated that the Army is revising its SOPs for reporting investment contingency operations costs to require the use of accounting codes that will separately identify funding sources for all investment transactions. The Acting Assistant Secretary stated that the Army plans to complete the revised SOPs by December 31, 2008.

Our Response

The Acting Assistant Secretary's comments were responsive to the recommendation; however, as of March 2009, the Army had not issued the revised SOPs.

b. Direct Army budget officers to adhere to procedures in DoD Financial Management Regulation 7000.14-R, volume 6A, chapter 2, "Financial Reports Roles and Responsibilities," November 2008, requiring that financial transactions be traceable to individual source records to enable Army budget officers to obligate, track, and report on their use of Global War on Terror funds.

Assistant Secretary of the Army (Financial Management and Comptroller)

The Acting Assistant Secretary of the Army (Financial Management and Comptroller) agreed with the recommendation. He stated that the Army is working to ensure that the audit trail measures that are in place for annual funding financial transactions are replicated for supplemental funding financial transactions. The Acting Assistant Secretary stated that the Army plans to complete this effort by December 31, 2008.

Our Response

The Acting Assistant Secretary's comments were responsive to the recommendation; however, as of March 2009, the Army had not issued the revised SOPs.

3. We recommend that the Director, Office of Budget, Operations Division, Assistant Secretary of the Navy (Financial Management and Comptroller) finalize and issue standard operating procedures to require Navy budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to enable the budget officers to accurately track and report obligations against each funding source, in accordance with DoD Financial Management Regulation 7000.14-R, volume 12, chapter 23, "Contingency Operations," September 2005.

Assistant Secretary of the Navy (Financial Management and Comptroller)

The Assistant Secretary of the Navy (Financial Management and Comptroller) did not agree with the recommendation, stating that his office issued guidance on capturing and reporting of contingency operation costs in the various Navy accounting systems. Concerned that the DoD Inspector General (IG) misconstrued the direction and intent of the FMR, volume 12, chapter 23, the Assistant Secretary stated that the FMR does not require that supplemental, bridge, and annual appropriated funds be separately identified in the accounting systems but instead requires DoD to report all incremental costs incurred as part of a contingency operation, regardless of fund source. The Assistant Secretary stated that issuing guidance to capture the distribution, obligation, and expenditure of supplemental funding for contingency operations would result in noncompliance with the FMR and would not provide an accurate record of the total incremental costs of the contingency operation. In conclusion, he stated that the Navy's guidance provides for the reporting and tracking of all costs, regardless of source.

Our Response

On September 29, 2008, the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) issued supplemental guidance for accounting and reporting contingency operations. Although the guidance establishes codes to differentiate between GWOT contingency operations in the accounting system, it does not require Navy comptroller and budget personnel to establish unique codes in the accounting systems to differentiate between annual, supplemental, and bridge funds.

While the FMR, volume 12, chapter 23, does not specifically require the separation of annual, supplemental, and bridge funds in the accounting system, the FMR does require that audit trails be established to enable transactions to be traced forward from its source to the resulting record and back from the resulting record to its source. Therefore, we still maintain that the Navy needs to separately identify annual, supplemental, and bridge funds in its accounting systems to enable the budget officers to accurately track and report obligations against each funding source for each GWOT contingency operation. Accordingly, we request that the Assistant Secretary of the Navy (Financial Management and Comptroller) review his office's position on this recommendation and provide additional comments in response to the final report.

4. We recommend that the Deputy Commandant for Programs and Resources, Headquarters Marine Corps and the Director, Financial Management Directorate, Washington Headquarters Services develop and issue standard operating procedures to require budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to enable the budget officers to accurately track and report obligations against each funding source, in accordance with DoD Financial Management Regulation 7000.14-R, volume 12, chapter 23, "Contingency Operations," September 2005.

Assistant Secretary of the Navy (Financial Management and Comptroller)

The Assistant Secretary of the Navy (Financial Management and Comptroller), assuming responsibility for both Navy and the Marine Corps financial management, did not agree with this recommendation for the same reasons he did not agree with Recommendation 3. The Assistant Secretary stated that the Navy's policy and procedures, which also apply to the Marine Corps, are sufficient for capturing and reporting contingency operations costs. In this regard, he stated that the Deputy Commandant for Programs and Resources, Headquarters Marine Corps, has the authority to issue further guidance, if necessary.

Our Response

On September 29, 2008, the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) issued supplemental guidance for accounting and reporting contingency operations. Although the Assistant Secretary stated that the Navy's guidance applied to the Marine Corps, the guidance clearly states that the Marine Corps issues specific reporting guidance for its accounting system, the Standard Accounting, Budget, and Reporting System.

Commandant of the Marine Corps Comments

The Commandant of the Marine Corps agreed with the recommendation, stating that the Marine Corps separately identifies supplemental, bridge, and annual funds in the accounting system for investment appropriations and that obligations against each funding source for these appropriations are tracked. The Commandant stated that beginning in FY 2009, the Marine Corps plans to allocate Operations and Maintenance, Marine Corps/Operations and Maintenance, and Marine Corps Reserve funds to budget officers by funding source and require budget officers to separately obligate the funds by source.

On behalf of the Commander, Marine Corps Systems Command (the Command), the Deputy Commander stated that in early FY 2007, the Command changed its practice of mixing baseline, bridge, and supplemental funds. Before the change in practice, the Deputy Commander stated that the Command reprogrammed annual funds to make up for shortfalls in supplemental accounts, and that generally, the Command identified GWOT funding sources for GWOT reprogramming requirements. In addition, the Deputy Commander stated that the Command did not add supplemental funds to baseline funds for programs of record. Further, the Deputy Commander listed several controls that the Command uses to track appropriations and minimize the risk of inappropriately using funds. These controls include assigning a different line of accounting to each type of funding, using Special Interest Codes, and verifying that funds coded with a Special Interest Code were used in recording GWOT obligations.

Our Response

The Command's change of practice in early FY 2007 to not mix baseline, bridge, and supplemental funds is commendable and partially meets the intent of the recommendation. To fully be responsive to the recommendation, the Deputy Commander needs to issue SOPs that formally implement the change in practice. Accordingly, we request that the Office of the Commandant of the Marine Corps, in coordination with the Deputy Commander, Marine Corps Systems Command, provide additional comments on the recommendation in response to the final report.

Director, Financial Management Directorate, Washington Headquarters Services

The Acting Director, Financial Management Directorate, Washington Headquarters Services agreed with the recommendation. The director stated that the SOPS will be issued as an Administrative Instruction and ready for signature in March 2009.

Our Response

The director's comments were responsive to the recommendation.

PAGE LEFT INTENTIONALLY BLANK

Appendix A. Scope and Methodology

We conducted this audit from August 2006 through March 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

During the audit we evaluated whether the Army, Navy, Marine Corps, Defense-wide agencies, National Guard, and Reserve Components had adequate financial controls over the use of GWOT supplemental and bridge funding provided for procurement and RDT&E to determine whether the funds were placed on contracts and used for the purposes stipulated by Congress.

Documentation and Information Reviewed

To accomplish the audit objective, we reviewed the following documentation and information dated from July 2002 through December 2007:

- procurement and RDT&E supplemental and bridge funds in Public Law 107-206, “2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States,” August 2, 2002; Public Law 108-11, “Emergency Wartime Supplemental Appropriations Act, 2003,” April 16, 2003; Public Law 108-106, “Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004,” November 6, 2003; Public Law 108-287, “Department of Defense Appropriations Act, 2005,” August 5, 2004; Public Law 109-13, “Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005,” May 11, 2005; and Public Law 109-148, “Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006,” December 30, 2005;
- procurement and RDT&E supplemental and bridge funds in Conference Report 107-593, “Making Supplemental Appropriations for Further Recovery From and Response to Terrorist Attacks on the United States for the Fiscal Year Ending September 30, 2002, and for Other Purposes,” July 19, 2002; Conference Report 108-76, “Making Emergency Wartime Supplemental Appropriations for the Fiscal Year 2003, and for Other Purposes,” April 12, 2003; Conference Report 108-337, “Making Emergency Supplemental Appropriations for Defense and for the Reconstruction of Iraq and Afghanistan for the Fiscal Year Ending September 30, 2004, and for Other Purposes,” October 30, 2003; Conference Report 108-622, “Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 2005, and for Other Purposes,” July 20, 2004; Conference Report 109-72, “Making Emergency Supplemental Appropriations for

the Fiscal Year Ending September 30, 2005, and for Other Purposes,” May 3, 2005; and Conference Report 109-359, “Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 2006, and for Other Purposes,” December 18, 2005;

- financial documents relating to GWOT supplemental and bridge funds including investment program/fund approvals for direct obligations, funding authorization documents, procurement program releases for direction obligations, funding allowance documents, program directive change requests for procurement, program authorization documents, resource realignment documents, reprogramming actions, military interdepartmental purchase requests, acceptance of military interdepartmental purchase requests, purchase requests, and procurement work directives; and
- contractual documents for obligating GWOT supplemental and bridge funds including modifications of contract and orders for supplies or services.

Staff Contacted

We contacted the staffs of the Under Secretary of Defense Comptroller, Assistant Secretary of the Army (Financial Management and Comptroller), Assistant Secretary of the Navy (Financial Management and Comptroller), Marine Corps Systems Command, U.S. Special Operations Command (Comptroller), Missile Defense Agency, Defense Information Systems Agency, Joint Program Executive Office for Chemical and Biological Defense, Washington Headquarters Services, TACOM Life Cycle Management Command, Communications Electronics Lifecycle Management Command, Program Executive Office Soldier, Program Executive Office Ammunition, Program Executive Office Missiles and Space, Project Manager Apache, U.S. Army Corps of Engineers, Naval Sea Systems Command, Naval Air Systems Command, Field Support Activity, Military Sealift Command, Army National Guard Comptroller and Materiel Programs Division, Office of the Chief Army Reserve, Air National Guard Plans and Requirements Division, Warner Robins Air Logistics Center, and Oregon Air National Guard 125th Special Tactics Squadron to determine whether the DoD Components were maintaining effective financial controls over the use of GWOT supplemental funding provided for procurement and RDT&E, and whether the funds were placed on contracts and used for the purposes stipulated in the congressionally approved supplemental funding for GWOT.

Audit Methodology

The audit team used computer-generated accounting reports, which listed the commitment transactions applicable to our line items, to determine which commitment documents pertained to our sample dollar points. The team arranged the commitment transactions in date order. If multiple transactions had the same date, the audit team arranged the transactions documents in alpha-numeric order based on the document number. For accounting systems that could not generate commitment transactions by date, the audit team arranged the transactions in the order they appeared on the

accounting report. When accounting reports were not available, the audit team collected the source documents applicable to the line items and arranged them in date order. The audit team used the dollar value of each commitment transaction to develop a running total of the funds committed to the line item. The running total added or subtracted the amount of each transaction to the previous transaction. The audit team used the running total as a means for establishing a continuous dollar range for the commitment transactions. We determined which commitment documents applied to the sample dollar points based on the dollar ranges that included the sample dollar points. If the sample dollar point was committed but not put on contract yet, the fund status was committed. If the funds were committed and put on contract, the fund status was obligated. If the sample dollar point was not committed, meaning that the total of continuous range was less than the sample dollar point, the fund status was unobligated. If the sample dollar point was obligated on a contract with multiple contract line item numbers, we determined which contract line item number contained the sample dollar point using the methodology just described.

In conducting the statistical sample, we excluded classified programs and efforts from the universe of GWOT appropriations. We concluded that the use of the audit results would be limited if we issued a classified report. The scope of this audit did not include the procurement and RDT&E funds provided to DoD under Public Law 109-234, “Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,” June 15, 2006, because when we started the audit, in August 2006, DoD had obligated less than 35 percent of the procurement and RDT&E funds. Consequently, the audit results would be distorted if we included this supplemental appropriation in the sample universe.

In May 2007, the audit scope and sampling methodology changed from a statistical sample to a judgmental sample. The audit scope changed because after reviewing the 28 Air Force sample dollar points, we determined that the same issues identified with the Air Force would probably occur for the remaining dollar points at the other DoD Components, based on preliminary results of our review of those transactions. As a result, instead of reviewing 600 sample dollar points with the statistical sample, we reviewed 158 sample dollar points as part of the judgmental sample. The 28 Air Force sample dollar points are discussed in the DoD Inspector General Report No. D-2008-027, “Air Force Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007. This report discusses the remaining 130 sample dollar points. For a detailed discussion of the statistical and judgmental sampling methodologies, see Appendix B.

We were not able to trace the supplemental and bridge funds to commitment and obligation documents for indeterminable sample dollar points. As a result, we did not request source documents for these sample dollar points; therefore, we did not review the documents to determine whether they had special program codes identifying the funds as supplemental or bridge funds.

Use of Computer-Processed Data

We used accounting reports generated from the General Accounting and Finance System; Oracle Financial Management System; Standard Accounting, Budgeting, and Reporting System; Standard Finance System; Standard Operation and Maintenance Army Research and Development System; and Washington Headquarters Services Allotment Accounting System. We did not perform a formal reliability assessment of the computer-processed data because it was used only to execute our methodology for identifying which commitment transactions were associated with the sample dollar points. The computer-processed data was not used to support the finding, conclusions, or recommendations. We determined that using the computer-processed data from the accounting reports would not affect the reliability of the audit.

Use of Technical Assistance

The Quantitative Methods and Analysis Division within the DoD Office of Inspector General assisted the audit team in conducting statistical and judgmental samples. For a detailed discussion of the statistical and judgmental sampling methodologies, see Appendix B.

Prior Coverage

During the last 5 years, the GAO, DoD IG, and Air Force Audit Agency (AFAA) issued 10 reports discussing supplemental funding authorized and obligated for the Global War on Terror. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Air Force reports can be accessed at <http://www.affaa.hq.af.mil>.

GAO

GAO Report No. GAO-08-853R, "Global War on Terrorism: Reported Obligations for the Department of Defense," June 13, 2008

GAO Report No. GAO-07-783R, "Global War on Terrorism: Reported Obligations for the Department of Defense," May 18, 2007

GAO Report No. GAO-06-885T, "Global War on Terrorism: Observations on Funding, Costs, and Future Commitments," July 18, 2006

GAO Report No. GAO-05-882, "Global War on Terrorism: DoD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs," September 2005

GAO Report No. GAO-04-915, "Military Operations: Fiscal Year 2004 Costs for the Global War on Terrorism Will Exceed Supplemental, Requiring DoD to Shift Funds From Other Uses," July 2004

GAO Report No. GAO-04-668, “Military Operations: DoD’s Fiscal Year 2003 Funding and Reported Obligations in Support of the Global War on Terrorism,” May 2004

GAO Report No. GAO-03-346, “Defense Budget: Tracking of Emergency Response Funds for the War on Terrorism,” April 2003

DoD IG

DoD IG Report No. D-2009-058, “DoD Cost of War Reporting of Supplemental Funds Provided for Procurement and Research, Development, Test, and Evaluation,” February 27, 2009

DoD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007

Air Force

AFAA Report No. F2005-0011-FB1000, “Global War on Terrorism Funds Management,” June 20, 2005

PAGE LEFT INTENTIONALLY BLANK

Appendix B. Sampling Methodology

Statistical Sampling Methodology

Sampling Objectives

The purpose of the statistical sampling was to select sample dollar points from the population of the GWOT supplemental appropriations provided for procurement and RDT&E activities and trace those sample dollar points through the appropriation, commitment, and obligation processes to determine whether they were obligated in support of GWOT and whether they were obligated as stipulated in the congressionally approved supplemental and bridge appropriations.

Population

The population of the sample consisted of six GWOT supplementals that Congress appropriated from August 2002 through December 2005. Public Law 107-206, Public Law 108-11, Public Law 108-106, Public Law 108-287, Public Law 109-13, and Public Law 109-148 enacted the six supplementals. The population totaled \$28,685,407,000, after the audit team excluded funding for classified programs and efforts.

Sample Design

For this sample, each population unit was a dollar point between 1 and 28,685,407,000. The sample design used a sampling technique in which each population unit (dollar point) had a probability of being selected that was proportional to its recorded amount, which was the total amount of the conference report line item it fell on. The advantage to using that sampling technique was that the larger recorded amounts had a higher probability of being selected than units with smaller recorded amounts. For example, a conference report line item totaling \$450 million would have a higher probability of having a population unit (dollar point) selected than a conference report line item totaling \$20 million would. The sample design called for using 95 percent confidence level for statistical projection.

Sample Size

To determine which population unit to sample, statisticians from the Quantitative Methods and Analysis Division aggregated the dollar values for the supplemental appropriations by location, arranged them in descending order, and computed a running sum of the dollar values for the supplemental appropriations. The statisticians randomly generated 600 numbers without replacement between 1 and 28,685,407,000 and correlated each random number to the corresponding dollar point for the running sum of the supplemental dollar values. They then determined which location corresponded to each of the 600 resulting dollar points. The distribution of the 600 dollar points was 361 for the Army, 156 for the Navy and Marine Corps, 28 for the Air Force, and 55 for the National Guard and Defense agencies.

Sample Result Categories

We initially anticipated issuing a summary report that projected the sample results across DoD in three main categories. Specifically, we planned to determine whether the DoD obligated the funds:

- in support of GWOT;
- as stipulated in the congressionally approved supplementals and bridges; or
- for indeterminable purposes because the sample dollar points were commingled with annual and other supplemental appropriations, commingled with other conference report line-items, or because of insufficient audit documentation.

Change in Sample Methodology

At the completion of our review of Air Force transactions, we decided to use a judgmental sample instead of continuing with a statistical sample to complete the overall DoD Component audit because we determined that the same issues associated with the Air Force would probably occur for the remaining dollar points based on preliminary results of our review of transactions at the other DoD Components. As a result, the results of the judgmental sample will not be projectable across DoD.

Judgmental Sampling Methodology

Sampling Objectives

The purpose of the judgmental sample was to select sample dollar points from the statistical sample. We traced those sample dollar points through the appropriation, commitment, and obligation processes to determine whether they were obligated in support of the GWOT and whether they were obligated as stipulated in the congressionally approved supplemental and bridge appropriations.

Population

The population of the judgmental sample consisted of the 572 statistical sample dollar points selected for the Army, Navy, Marine Corps, Defense-wide agencies, National Guard, and Reserve Components from 6 GWOT supplementals that Congress appropriated from August 2002 through December 2005. Public Law 107-206, Public Law 108-11, Public Law 108-106, Public Law 108-287, Public Law 109-13, and Public Law 109-148 enacted the six supplementals. The other 28 of the 600 statistical sample dollar points were discussed in DoD IG Report No. D-2008-027, "Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation," November 21, 2007.

Sample Size

For the purposes of selecting the number of judgmental sample dollar points, we formed the following three DoD Component groups: Army; Navy and Marine Corps; and Defense-wide agencies, National Guard, and Reserve Components. We decided to use those DoD Component groups because that was how we anticipated reporting the results

of the statistical sample dollar points. To determine the number of judgmental sample dollar points to select for each DoD group, statisticians from the Quantitative Methods and Analysis Division created a scale based on the number of statistical sample dollar points selected for each DoD group, as shown in the following table.

Table B-1. Statistical Sample Dollar Point Range for Determining Number of Judgmental Sample Dollar Points for Each DoD Component Group

Number of Statistical Sample Dollar Points	Number of Judgmental Sample Dollar Points
0–100	30
101–200	40
201–300	50
>300	60

The following table shows the DoD Component groups and the number of judgmental sample dollar points we chose for those groups.

Table B-2. Number of Judgmental Sample Dollar Points Selected for DoD Component Groups

DoD Component Group	Number of Statistical Sample Dollar Points	Number of Judgmental Sample Dollar Points
Army	361	60
Navy and Marine Corps	156	40
Defense-wide agencies, National Guard, and Reserve Components	55	30

In May 2007, when we decided to use a judgmental sample, we had already completed 36 of the statistical sample dollar points for the Army. However, 9 of those 36 sample dollar points did not provide any additional information.¹

¹ We determined that a sample dollar point would not provide any additional information if it was appropriated for the same purpose and obligated on the same contract and contract line item number as another sample dollar point.

We chose 361 dollar points for the Army in the statistical sample. To determine the judgmental sample, we performed the following steps for the 325 dollar points that were not complete as of the date the judgmental sample was conducted:

- used a random number generator to assign a random number to each of those 325 points, and then
- sorted those sample dollar points, in ascending order, based on that random number.

Starting at the top of the randomly sorted Army list, we chose 33 sample dollar points,² the number needed to satisfy the 60 judgmental sample dollar points for the Army as determined by the range shown in Table C-1. If a judgmentally selected sample dollar point did not provide any additional information or was used for a classified program or effort, we removed that sample dollar point from the judgmental sample and selected a replacement sample dollar point from the randomly sorted Army list.

We followed the same methodology for the Navy and Marine Corps Component group and the Defense-wide agencies, National Guard, and Reserves Component group.

Sample Result Categories

We determined whether DoD obligated the funds:

- in support of GWOT;
- as stipulated in the congressionally approved supplementals and bridges; or
- for indeterminable purposes because the sample dollar points were commingled with annual appropriations, commingled with other conference report line-items, or because of insufficient audit documentation.

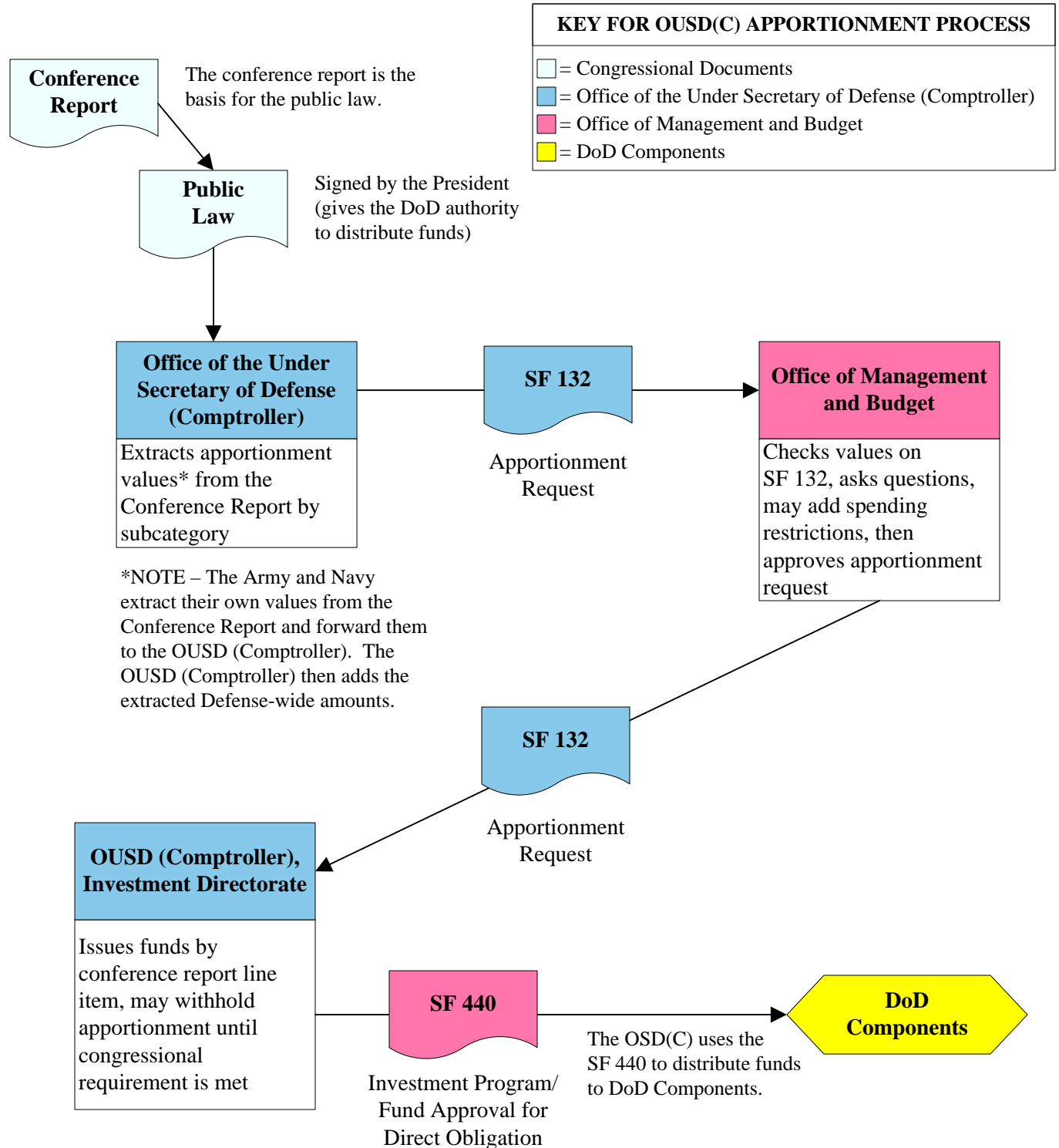
² Although 36 Army statistical sample dollar points were complete as of May 2007, 9 of those did not provide any additional information and were removed from the judgmental sample. Therefore, we chose 33 additional Army sample dollar points to satisfy the 60 judgmental sample dollar points as determined by the range, as shown in Table C-1.

PAGE LEFT INTENTIONALLY BLANK

Appendix C. Apportionment Process for Supplemental and Bridge Funds

The following chart illustrates the OUSD(C) apportionment process for GWOT supplemental and bridge funds. We compiled the figure based on meetings with the OUSD(C). The chart's key can be found in the upper right hand corner of the page. According to an OUSD(C) representative the following process is followed for the apportionment of supplemental and bridge funds. The apportionment process begins when Congress provides its Conference Report to the President for approval. When the President signs the conference report into law, DoD is given the authority to distribute the funds. Once OUSD(C) receives the conference report and the public law, it extracts the apportionment values by subcategory and issues an apportionment request to the Office of Management and Budget. The Office of Management and Budget checks the values, applies spending restrictions as necessary, and approves the apportionment request. On receipt of the approved apportionment request, the OUSD(C) Investment Directorate issues funds to the DoD Components by line item totals, makes sure detailed line items reconcile, and as necessary, withholds apportionment until congressional requirements are met. The DoD Components receive the supplemental funds electronically from the OUSD(C), Investment Directorate on a Form 440 issued through the Program Budget and Accounting System.

OUSD(C) Flowchart



PAGE LEFT INTENTIONALLY BLANK

Appendix D. Glossary

Bridge Funds

Bridge funds are emergency supplemental funds that are added to the regular annual appropriation bill to pay a portion of the incremental funds needed for emergency operations. Generally, bridge funds are in a separate title of the appropriation, usually Title IX.

Budget Authority

Budget authority is provided by Congress and allows Government agencies to enter into obligations that will result in immediate or future outlays. It may be classified by the period of availability, by the timing of congressional action, or by the manner of determining the amount available.

Commitment

The Defense Acquisition University Glossary defines commitment as an administrative reservation of funds by the comptroller in anticipation of an obligation.

Contingency Operation

A contingency operation is a military operation that is designated by the Secretary of Defense as an operation in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States or against an opposing military force. A contingency operation is also considered a call or order to, or retention on, active duty of members of the uniformed services during a war or during a national emergency declared by the President or Congress.

DoD Components

The DoD Components, as referred to in this report, are the Army, Navy, Marine Corps, U.S. Special Operations Command, Chemical and Biological Defense Office, Defense Information Systems Agency, Missile Defense Agency, Washington Headquarters Service, Army National Guard, Air National Guard, and Army Reserves.

Obligation

The Defense Acquisition University Glossary defines an obligation as a duty to make a future payment of money. The duty is incurred as soon as an order is placed or a contract is awarded for the delivery of goods and the performance of services. An obligation is a specified sum of money that will require expenditures in the future.

Operation Enduring Freedom

Operation Enduring Freedom is the continuing United States effort to track down terrorists and provide stability, primarily in Afghanistan, but also in the Republic of the Philippines and Cuba. The military objectives of Operation Enduring Freedom include denying terrorist organizations access to training camps and infrastructure, capturing Al

Qaeda leaders and fighters, stopping terrorist activities against the United States and its allies, and preventing the re-emergence of international terrorist organizations. In Afghanistan, the objectives include destroying the remaining Taliban and Al Qaeda organization, training the Afghan National Army, conducting civil-military operations, and providing support for the emerging government of Afghanistan. In Cuba, the United States continues to hold terrorist detainees at Guantanamo Bay in order to obtain tactical intelligence on current and future terrorists operations, remove Al Qaeda and Taliban terrorists from the battlefield, and facilitate prosecution of those who have committed crimes.

Operation Iraqi Freedom

Operation Iraqi Freedom is the continuing United States efforts to stabilize Iraq, conduct stability and support operations throughout Iraq, capture Hussein regime loyalists, and stop terrorists from using Iraq as a staging area for terrorism activities.

Operation Noble Eagle

Operation Noble Eagle is the continuing United States efforts to defend the United States from airborne attacks and maintain United States air sovereignty.

Procurement

The Defense Acquisition University Glossary defines procurement as the act of buying goods and services for the Government.

Research, Development, Test, and Evaluation

Research, development, test, and evaluation activities and funding are used to develop new systems or expand the performance of fielded systems.

Supplemental Appropriation

Supplemental appropriations are approved by Congress and enacted by the President as an addition to a regular annual appropriation. Supplemental appropriations provide additional budget authority beyond original estimates for programs or activities that are too urgent to be postponed until the next regular annual appropriation.

Appendix E. Management Comments on the Finding and Appendices and Our Response

Our detailed response to the comments from the Office of the Under Secretary of Defense and the Marine Corps Systems Command on the draft report finding and appendices of this report follow. The complete text of those comments can be found in the Management Comments section of this report.

Office of the Under Secretary of Defense Comments

In a meeting with audit staff on October 9, 2008, the Director, Investments Directorate, OUSD(C) provided additional comments to clarify his office's position on the recommendation in the draft of this report. He stated that the DoD IG indicated that their office could not track supplemental funds for sub-line items for procurement (P-1) and RDT&E (R-1) funding released to the DoD Components when those sub-lines were combined with the existing P-1 and R-1 budget structure. The director stated that this situation occurs when Congress appropriates funds into nonexistent program funding lines and the OUSD(C) staff, working with the executing DoD Components, aligns the funds into existing program funding lines. He stated that this does not occur often. However, when it does occur, it is necessary for his office to ensure that the funds are issued to the correct destination, can be tracked during execution, and will not cause an administrative or contractual obstruction.

At the meeting, the audit team provided the director an example of where his office did not separate GWOT supplemental and bridge appropriations by conference report line item on the funding documents issued to the DoD Components. In the example from the FY 2006 conference report, the funding document issued to the Navy from the Investments Directorate, OUSD(C) showed that all funding for the Navy's AH-1W helicopter procurement program, which included conference report line items for the AH-1W Increased Survivability, \$6.6 million; AH-1 Turned Exhaust, \$15.9 million; and AH-1 Turned Exhaust (spares), \$1.3 million, were combined into one budget line, the Navy AH-1W Series project line in Aircraft Procurement, Navy. In response, the director stated that the audit team would want the Investments Directorate, OUSD(C) to issue the supplemental funds in three distinct budget lines, to correspond with the conference report. The director stated that he understood that it would be easier to track the supplemental funding if the funds were released in separate funding lines; however, that would have created an unreasonable administrative burden on the Navy's program office, and possibly result in changing production contracts, delaying obligations, and imposing problems in tracking obligations and expenditures for the AH-1 program. Despite the fact that the funds were issued in one budget line item, he stated that the Navy program office was fully aware of the congressional intent and executed the funds as directed by the Congress. The director further cited a situation that occurred in FY 2009, when Congress appropriated \$56.0 million for Dry Bridge Support program. Because no budget line existed for that program, he stated that the Army requested that the funds be realigned to the existing Tactical Bridging program budget line for execution. The

director stated that the Army plans to follow congressional intent when executing the funds, but needs the funding moved to the correct Other Procurement, Army budget line for Tactical Bridging to ensure proper execution. Similarly, he stated that his office had to do this for a conference report line item for Tactical Radios, \$4.9 million, which had to be realigned to the budget line for Radio, Improved HP (COTS) Family. The director reiterated that the congressional intent will be adhered to. In conclusion, he stated that the guidance section of the Form 440 references the public law from which the funds were enacted and he believes that no additional clarification is required from his office for the program office to follow congressional direction.

Our Response

We agree with the director and recognize that Congress sometimes appropriates funds using program funding lines that do not exist. In those situations, we further understand that the OUSD(C) must provide those funds to the DoD Components as part of an existing program budget line. However, in situations when the GWOT funds for different conference report line items are combined into one amount, the audit trail disappears when they are issued to the DoD Components.

The FMR states that financial transactions should be supported with documentation that permits transactions to be traced to source records. Further, because conference reports and public law express the intent of the Congress and the President, it is critical that an audit trail be maintained to ensure that appropriated funds are used in accordance with the congressional language. It is not our intention that the creation of such audit trails be so complex that they impact production contracts, delay obligations, or impose other problems for OUSD(C) or the DoD Components. As such, we identified several alternate methods to developing and maintaining an audit trail, which we discussed during our October 9, 2008, meeting. For example, the OUSD(C) could either include remarks directly on the Form 440 itself or include an attachment to the Form 440 that explains which conference report line items were combined and identifies the amount of funding provided for each line item. Thereby, when the Form 440s are subsequently issued to the DoD Components, the DoD Components would be fully aware of which efforts received congressional funding, could appropriately execute those funds, and could maintain audit trails to ensure that appropriated funds are accurately obligated and reported.

Because the public law does not provide a detailed listing of the line items receiving funds and the amount of funds each line item received, citing the public law on the Form 440 will not ensure that funds on the Form 440 are obligated as authorized by Congress. An acceptable alternative would be to reference the conference report on the Form 440 which does provide a detailed listing of the line items receiving funds and the amount of funds each line item received.

Without OUSD(C) providing this level of detail to the program offices, DoD has no assurance that the program offices will implement the intent of congressional direction. In summary, the OUSD(C) and the DoD Components must be held accountable for using GWOT funds appropriately. To achieve this objective, OUSD(C) and DoD Components need their accounting systems to provide transparency and the assurance that the funds

are being used for the purposes stipulated by Congress. By maintaining transparency in accounting systems, the DoD Components will also be able to accurately report to Congress their progress in obligating GWOT funds.

Management Comments on Apportionment Process Flowchart and Our Response

Office of the Under Secretary of Defense Comments

The Director, Investments Directorate, Office of the Under Secretary of Defense (Comptroller) stated that the OUSD(C) apportionment process flowchart was not accurate. He stated that funds are not issued by line item total; they are issued by individual conference report line item. The director stated that the Form 440 is used to issue funds to the Services and that the Program Budget and Accounting System is used to issue funds to the Defense-wide agencies. He stated that the Program Budget and Accounting System is not an electronic version of a Form 440.

Our Response

The audit team contacted the OUSD(C) regarding these comments and made the appropriate revisions to the OUSD(C) apportionment process flowchart in Appendix C.

PAGE LEFT INTENTIONALLY BLANK

Office of the Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

(Program/Budget)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 6 2008

MEMORANDUM FOR THE OFFICE OF THE DEPUTY INSPECTOR GENERAL FOR AUDITING (ODIG-AUD)

SUBJECT: DoD Components' Use of Global War on Terror Supplemental Funding
Provided for Procurement and Research, Development, Test, and
Evaluation (Project No. D2006-D000AE-0241.002)

Thank you for the opportunity to review the draft DoD IG report on DoD
Components Use of Global War on Terror Supplemental Funding Provided for
Procurement and Research, Development, Test, and Evaluation.

We are gravely concerned about and disagree with the statement that "...OUSD(C)
did not separate conference report line items when issuing funds to three of the DoD
Components." OUSD(Comptroller) Investment has been and will continue to issue funds
to the components by individual conference report line item. Additional comments with
examples are contained in enclosure (1).

We are available at your earliest convenience to review the details and work out
this misunderstanding. My point of contact on this subject is Cheryl Farley 697-9431.

A handwritten signature in black ink, appearing to read "Roberto Rodriguez".

Roberto Rodriguez
Director
Investment Directorate

Attachments:

- Enclosure 1 – OUSD(C) Inv Comments
- Enclosure 2 – OUSD(C) Inv Issuing Funds Tracking example
- Enclosure 3 – Revised Apportionment Process Chart

USC002463-08

We agree with the following statements:

“We recommend that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer follow procedures requiring that financial transactions be traceable to individual source records.” (Page i)

“ 1. The Under Secretary of Defense (Comptroller)/Chief Financial Officer consistently adhere to procedures requiring financial transactions to be traceable to individual source records by separating Global War on Terror supplemental and bridge appropriations by conference report line item on the funding documents issued to the DoD Components to enable DoD Component budget officers to obligate, track, and report on their use of Global War on Terror funds, in accordance with DoD Financial Management Regulation 7000.14-R, Volume 1, Chapter 3, "Accounting Systems Conformance, Evaluation, and Reporting," August 2000.” (Page 10)

OUSD (Comptroller) Investment has been and will continue to issue funds to the components by conference report line item not by budget line item in the Form 440 (Services) and in PBAS (Defense-Wide Agencies). This means the base budget has been and will be issued separately from the supplemental budget. Thus the funds issued are traceable back to the individual source records (i.e. line item in conference report).

We disagree with the following statements:

“ the OUSD(C) did not follow procedures for establishing audit trails.” (Page 5)

“Specifically, the OUSD(C) did not separate conference report line items when issuing funds to three of the DoD Components.” (Page 6, sample results)

“Specifically, the OUSD(C) combined GWOT supplemental and bridge funds for different conference report line items on the funding documents issued to the Army for four of the five sample dollar points.”....”the OUSD(C) did not maintain an adequate audit trail to show which Army program received GWOT bridge funds.” (Page 7, Army)

“In addition, OUSD(C) combined bridge funding for multiple conference report line items on funding documents provided to the Marine Corps.....” (Page 8)

“The OUSD(C) did not consistently separate supplemental and bridge funds for the conference report line items. When it disbursed funds to the DoD Components...” (Page 8)

The above statements, which are basically all saying the same thing, are incorrect. OUSD(C) Inv has been and will continue to issue funding to the components by conference report line item which means the base budget will be issued separately from the supplemental budgets.

Attached as enclosure (2) is an example from FY 2006 which includes the conference report (109-359) (P.L.109-148) pages and the 440 funding documents tracking one appropriation (Procurement of W&TCV, Army) from the conference report to the funding documents (Form 440) by line item. OUSD(C) Investment issued the base funding (Div. A, Title IV) separately from additional appropriation (Div A, Title IX) GWOT supplemental and the emergency supplemental for hurricane Katrina (Div. B, Title 1, Chap. 2). Additional examples can be provided.

Many samples of the 440s issued by OUSD(C) Inv for fiscal years 2002-2006 (the timeframe you reviewed) were reviewed. In all cases the 440s were issued funds to the components by individual conference report line item, consequently the base was separate from the supplemental. In FY 2003 the base budget was apportioned/issued in November 2002 and the emergency supplemental budget was apportioned/issued in May 2003 so the base and supplemental could not have been rolled together because they were not issued in the same time frame. This has occurred during several fiscal years.

Also attached, as enclosure (3), is a marked up version of the OUSD(C) apportionment process chart contained on page 24. The chart is not quite accurate for the OUSD(C) Inv issuing process. Funds are not issued by line item total. They are issued by individual conference report line item. The Form 440 is used for issuing funds to the Services. The Program Budget and Accounting System (PBAS) is used to issue funds to the Defense-Wide Agencies. PBAS is not an electronic version of a Form 440.

MAKING APPROPRIATIONS FOR THE DEPARTMENT OF
DEFENSE FOR THE FISCAL YEAR ENDING SEPTEMBER
30, 2006, AND FOR OTHER PURPOSES

DECEMBER 18, 2005.—Ordered to be printed

Mr. YOUNG of Florida, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 2863]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 2863) "making appropriations for the Department of Defense for the fiscal year ending September 30, 2006, and for other purposes", having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate, and agree to the same with an amendment, as follows:

In lieu of the matter stricken and inserted by said amendment, insert:

DIVISION A

DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 2006

That the following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the fiscal year ending September 30, 2006, for military functions administered by the Department of Defense and for other purposes, namely:

TITLE I

MILITARY PERSONNEL

MILITARY PERSONNEL, ARMY

For pay, allowances, individual clothing, subsistence, interest on deposits, gratuities, permanent change of station travel (includ-

25-159

1

Enclosure (2)

PROCUREMENT OF WEAPONS AND TRACKED COMBAT VEHICLES, ARMY

The conference agreement on items addressed by either the House or the Senate is as follows:

	(In thousands of dollars)			
	Budget	House	Senate	Conference
PROCUREMENT OF M109, ARMY				
TRACKED COMBAT VEHICLES				
ABRAMS T100 DEV MOD	3,754	3,754	3,754	3,754
BRADLEY BASE SUSTAINMENT	37,908	44,408	37,908	41,108
BRADLEY PVS TRAINING DEVICES (MOD)	5,679	5,679	5,679	5,679
ABRAMS TANK TRAINING DEVICES	3,709	6,709	5,709	7,259
STRYKER	878,449	882,449	878,449	881,249
MODIFICATION OF TRACKED COMBAT VEHICLES				
B7VS SERIES (MOD)	48,265	45,265	45,265	67,265
HOWITZER, MED SP FT 155MM M109A6 (MOD)	14,801	14,801	14,801	14,801
FAADV PIP TO FLEET	6,439	6,439	6,439	6,439
M1 ABRAMS TANK (MOD)	443,475	443,475	190,775	190,775
SUPPORT EQUIPMENT AND FACILITIES				
ITEMS LESS THAN \$5,000 (TCV-MTCV)	407	407	407	407
PRODUCTION BASE SUPPORT (TCV-MTCV)	10,258	10,258	10,258	10,258
TOTAL, TRACKED COMBAT VEHICLES	1,450,144	1,463,844	1,199,444	1,225,964

	(In thousands of dollars)			
	Budget	House	Senate	Conference
WEAPONS AND OTHER COMBAT VEHICLES				
INTEGRATED AIR BURST WEAPON SYSTEM FAMILY.....	32,484	22,284	---	---
ARMOR MACHINE GUN, 7.62MM M240 SERIES.....	14,148	14,148	14,148	14,148
MACHINE GUN, 5.56MM (SAW).....	80	80	80	80
GRENADE LAUNCHER, AUTO, 40MM, HK19-3.....	8,715	8,715	8,715	8,715
MORTAR SYSTEMS.....	200	200	200	200
M16 RIFLE.....	8,000	8,000	8,000	8,000
M107, CAL. 50, SNIPER RIFLE.....	9,656	9,656	9,656	9,656
5.56 CARBINE M4.....	3,215	3,215	3,215	3,215
HOMITZER LT WT 155MM (T).....	46,786	46,786	46,786	46,786
MCO OF WEAPONS AND OTHER COMBAT VEH				
MARK-19 MODIFICATIONS.....	5,444	5,444	5,444	5,444
M4 CARBINE MODS.....	44,817	44,817	14,817	14,817
SQUAD AUTOMATIC WEAPON (MOD).....	3,095	3,095	3,095	3,095
MEDIUM MACHINE GUNS (MODS).....	7,089	7,089	7,089	7,089
M119 MODIFICATIONS.....	1,000	1,000	1,000	1,000
M16 RIFLE MODS.....	1,970	1,970	1,970	1,970
MODIFICATIONS LESS THAN \$5.0M (MOCV-MTCV).....	5,146	5,146	5,146	5,146
SUPPORT EQUIPMENT AND FACILITIES				
ITEMS LESS THAN \$5.0M (MOCV-MTCV).....	488	488	488	488
PRODUCTION BASE SUPPORT (MOCV-MTCV).....	6,494	6,494	6,494	6,494
INDUSTRIAL PREPAREDNESS.....	2,655	5,155	8,655	11,155
SMALL ARMS (SOLDIER ENH PROD).....	5,181	10,181	9,181	9,681
TOTAL, WEAPONS AND OTHER COMBAT VEHICLES.....	206,863	203,863	154,179	157,179
SPARES AND REPAIR PARTS (MTCV).....	3,342	3,342	5,842	5,442
TOTAL, PROCUREMENT OF MTCV, ARMY.....	1,660,149	1,670,949	1,359,465	1,391,615

HOME STATION READINESS TRAINING AND LOGISTICS

In this title the conferees recommend \$50,000,000,000 as a "bridge fund" in support of ongoing contingency operations related to the Global War on Terror, including \$33,217,848,000 in the operation and maintenance accounts. Substantial funding will be required to support continuing combat and security operations in Afghanistan and Iraq. The conferees understand that substantial amounts will be needed as well in support of unit mobilizations, specialized pre-deployment training, transportation to and from the areas of operation, home station recovery and reset, and post-deployment training to ensure recovery to established readiness standards for full spectrum combat operations around the world. Specialized training before deployment, and retraining after deployment, with the associated transportation, base operations, logistical, maintenance and reset costs, though accrued at home station, should be attributed to the continuing combat and peacekeeping operations. To the extent that such training, maintenance and reset activities displace normal peacetime training events, the amounts provided in home station operation and maintenance lines have been reduced. The Department of Defense should allocate title IX operation and maintenance funding accordingly, to ensure full support for pre-deployment and post-deployment operations, as well as for continuing combat and security operations in support of the Global War on Terror.

IRAQ FREEDOM FUND

The conference agreement includes \$4,658,686,000 for the Iraq Freedom Fund. Of this amount, \$1,360,000,000 is for the IED Defeat Task Force, \$3,048,686,000 is for classified activities described further in a classified annex to this report, and \$250,000,000 is for emergent needs for the Global War on Terror. Additionally, the conference agreement provides that up to \$100,000,000 shall be available for the Department of Homeland Security, "United States Coast Guard, Operating Expenses".

PROCUREMENT

The following table provides details of the supplemental appropriations in this title.

[In thousands of dollars]			
Account	House	Senate	Conference
Aircraft Procurement, Army:			
AH-64 Apache Mods.....	-	98,800	74,100
GUARDRAIL, Mods (TIARA).....	-	25,000	18,700
UH-60L Blackhawk Helicopters.....	-	90,000	30,000
Integrated Mechanical Diagnostics-HUMS.....	-	25,000	-
Aircraft Survivability Equipment.....	-	11,200	11,200
ASE CM.....	-	69,600	69,600
CH-47 Replacement.....	-	28,500	28,500
Total Aircraft Procurement, Army.....	-	348,100	232,100
Missile Procurement, Army:			
TOW 2B.....	-	80,000	55,000
Total Missile Procurement, Army.....	-	80,000	55,000
Procurement of Weapons and Tracked Combat Vehicles, Army:			
Bradley Base Sustainment.....	-	100,000	50,000
Bradley Reactive Tiles.....	-	25,000	-
M1 Abrams Tank Power Pack Improvement and Integration Optimization.....	-	252,700	252,700
Stryker-Combat Losses.....	-	50,000	50,000
Stryker.....	-	130,000	130,000
Carrier Mods.....	-	75,000	62,000
CROWS.....	-	75,000	75,000
Gun Trucks.....	2,450	-	-
Small Arms Programs			
M16 rifle mods.....	55,300	10,000	9,590
M240 medium machine gun mods.....	9,372	10,000	9,000
M240 medium machine gun (7.62mm).....	107,944	10,000	18,000
M4 carbine mods.....	29,595	130,000	75,000
M249 SAW mods.....	168,237	-	63,000
M249 SAW machine gun (5.56mm).....	5,728	9,000	4,500
M107, Cal. 50 sniper rifle.....	54,111	5,000	3,500
M107, Cal. 50 sniper rifle.....	9,274	1,000	1,000
Small Arms Equipment (Soldier Enhancement Program).....	3,416	5,000	5,000
M2HB Enhanced .50 Caliber Machine Gun Kits.....	10,000	-	-
Mortar Systems.....	-	23,000	15,000
Counter Rocket, Artillery and Mortar FOB (note: transferred from OPA).....	-	-	36,900
Total Procurement of WTCV, Army.....	455,427	\$10,700	\$60,190
Procurement of Ammunition, Army:			
First Destination Transportation.....	2,000	-	-
Ammunition Production Force Protection.....	11,900	-	-
CTG, 5.56MM, All Types.....	-	20,753	30,000
CTG, 7.62MM, All Types.....	-	14,889	21,000
CTG, 9MM, All Types.....	-	1,513	-
CTG, .50 CAL, All Types.....	-	-	15,000
CTG, 20MM Phalanx (for C-RAM development).....	-	-	6,000
CTG, 25MM, All Types.....	-	6,999	-
CTG, 30MM, All Types.....	-	10,531	20,000
CTG, 40MM, All Types.....	-	42,747	35,000
CTG, 60MM MORTAR, All Types.....	-	15,335	-
CTG, 81MM MORTAR, All Types.....	-	32,286	-

494

(In thousands of dollars)

Account	Request	Conference
Temporary Continuing Operations	11,700	11,700
Facilities Restoration (SRM)	1,094	1,094
Total Operation and Maintenance, Marine Corps Reserve	16,331	16,331
Operation and Maintenance, Air Force Reserve:		
Temporary Continuing Operations	449	449
Equipment Repair and Replacement	1,917	1,917
Total Operation and Maintenance, Air Force Reserve	2,366	2,366
Operation and Maintenance, Army National Guard:		
Army National Guard Support (Non-SRM)	42,803	42,803
Urgent Repair and Recovery (Non-SRM)	6,200	6,200
Temporary Continuing Operations	635	635
Facilities Restoration (SRM)	49,217	49,217
Total Operation and Maintenance, Army National Guard	98,855	98,855
Operation and Maintenance, Air National Guard:		
Urgent Repair and Recovery (Non-SRM)	25,449	25,449
Temporary Continuing Operations	9,080	9,080
Facilities Restoration (SRM)	13,557	13,557
Total Operation and Maintenance, Air National Guard	48,086	48,086
Total Operation and Maintenance	1,952,218	1,953,318

Additional funds are provided in the operation and maintenance accounts to address a broad spectrum of hurricane-related relief and recovery activities including repair of Department of Defense facilities, establishment of alternate operating sites for displaced military functions and sustainment of temporary continuing operations. Funds will support the repair and replacement of equipment, debris removal, hazardous waste cleanup and disposal, utility and electrical repair, furniture replacement, and transportation costs. Additionally, funding will provide for the reestablishment of recruiting centers and Reserve Officer Training campus sites. The funds provided will support the evacuation and sustainment of Active and Reserve Component personnel, federal civilian employees, and their dependents. Funds also are provided in support of Army and Air National Guard storm related activities including flying hours, ground support, aviation technical assistance, supplies and repairs.


PROCUREMENT

The following table provides details of the recommendations for the procurement accounts:

(In thousands of dollars)

Account	Request	Conference
Procurement of Weapons and Tracked Combat Vehicles, Army:		
Lightweight (LW) 155mm Howitzer	1,600	1,600
Total Procurement of WTCV, Army	1,600	1,600

6

INVESTMENT PROGRAM/FUND APPRO*		OR DIRECT OBLIGATION (\$ IN THOUSANDS)										
TO: As	Secretary of the Army (FM&C)	PROGRAM YEAR:				APPROPRIATION: Procurement of W&TCV, Army						
LINE ITEM TITLE	PROGRAM VALUE				FUNDING						WITHHELD	
	PREVIOUSLY APPROVED		REVISED APPROVED		PREVIOUSLY APPROVED		THIS CHANGE		REVISED APPROVED			
	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt
ABRAMS TRNG DEV MOD				3,754				3,754		3,754		
BRADLEY BASE SUSTAINMENT				41,108				37,908		37,908		3,200
BRADLEY FVS TRAINING DEVICES (MOD)				5,679				5,679		5,679		
ABRAMS TANK TRAINING DEVICES				7,259				3,709		3,709		3,550
STRYKER				881,249				878,449		878,449		2,800
BFVS SERIES (MOD)				67,265				45,265		45,265		22,000
HOWITZER, MED SP FT 155MM M109A6 (MOD)				14,801				14,801		14,801		
FAASV PIP TO FLEET				6,439				6,439		6,439		
M1 ABRAMS TANK (MOD)				190,775				190,775		190,775		
ITEMS LESS THAN \$5.0M (TCV-WTCV)				407				407		407		
PRODUCTION BASE SUPPORT (TCV-WTCV)				10,258				10,258		10,258		
ARMOR MACHINE GUN, 7.62MM M240 SERIES				14,148				14,148		14,148		
MACHINE GUN, 5.56MM (SAW)				80				80		80		
GRENADE LAUNCHER, AUTO, 40MM, MK19-3				8,715				8,715		8,715		
MORTAR SYSTEMS				200				200		200		
M16 RIFLE				8,000				8,000		8,000		
M107, CAL. 50, SNIPER RIFLE				9,656				9,656		9,656		
5.56 CARBINE M4				3,215				3,215		3,215		
GUIDANCE:												
<div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div>  APPROVED: Comptroller </div> <div>DATE:</div> <div>APPROVED:</div> <div>DATE:</div> <div>AUTHORIZATION # 06/08-1</div> </div>												

FORM 440, 1 Sep 89

INVESTMENT PROGRAM/FUND APPROV				OR DIRECT OBLIGATION (\$ IN THOUSANDS)									
TO: As. Secretary of the Army (FM&C)		PROGRAM YEAR:				APPROPRIATION: Procurement of W&TCV, Army							
LINE ITEM TITLE	PROGRAM VALUE				FUNDING						WITHHELD		
	PREVIOUSLY APPROVED		REVISED APPROVED		PREVIOUSLY APPROVED		THIS CHANGE		REVISED APPROVED				
	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	
HOWITZER LT WT 155MM (T)				46,786				46,786		46,786			
MARK-19 MODIFICATIONS				5,444				5,444		5,444			
M4 CARBINE MODS				14,817				14,817		14,817			
SQUAD AUTOMATIC WEAPON (MOD)				3,095				3,095		3,095			
MEDIUM MACHINE GUNS (MODS)				7,089				7,089		7,089			
M119 MODIFICATIONS				1,000				1,000		1,000			
M16 RIFLE MODS				1,970				1,970		1,970			
MODIFICATIONS LESS THAN \$5.0M (WOCV-WTCV)				5,146				5,146		5,146			
ITEMS LESS THAN \$5.0M (WOCV-WTCV)				488				488		488			
PRODUCTION BASE SUPPORT (WOCV-WTCV)				6,494				6,494		6,494			
INDUSTRIAL PREPAREDNESS				11,155				2,655		2,655		8,500	
SMALL ARMS (SOLDIER ENH PROG)				9,681				9,681		9,681			
SPARES AND REPAIR PARTS (WTCV)				5,442				3,342		3,342		2,100	
1% Reduction Sec 3801(a)				-13,868				-13,868		-13,868			
Section 8125				-4,798				-4,798		-4,798			
APPROPRIATION TOTAL			0	1,372,949			0	1,330,799		1,330,799		42,150	

GUIDANCE: This action reflects final congressional action on the FY 2006 budget including reductions to comply with Public Law 109-148. Funds availability is contingent upon receipt of a signed apportionment document and compliance with DNI direction on applicable classified apportionment documents. The total amount for the appropriation shown in the Revised Approved Program Funding columns of this document represents a limitation subject to provisions of section 1517 of 31 U.S. Code, the Anti-Deficiency Act. Program funding released in this and subsequent documents is to be executed only in accordance with all applicable provisions of the DoD Appropriations Act for FY 2006; the Administrative Control of Appropriations Directive (DoDD 7200.1); and the DoD Financial Management Policy and Procedures Instruction (DoDI 7000.14), and accompanying regulation (DoD 7000.14R).

APPROVED: Comptroller <i>Elley Maldonado</i>	DATE: 1/17/2006	APPROVED:	DATE:	AUTHORIZATION # 0608-1
---	--------------------	-----------	-------	------------------------

FORM 440, 1 Sep 89

EXPLANATION OF PROGRAM/FUND BALANCE		
APPROPRIATION: Procurement of W&TCV, Army		
Procurement of W&TCV, Army 06/08-1		
PROGRAM	AMOUNT	WITHHOLD RATIONALE
BRADLEY BASE SUSTAINMENT	3,200	Pending review of requirements.
ABRAMS TANK TRAINING DEVICES	3,550	Pending review of requirements.
STRYKER	2,800	Pending review of requirements.
BFVS SERIES (MOD)	22,000	Pending review of requirements.
INDUSTRIAL PREPAREDNESS	8,500	Pending review of requirements.
SPARES AND REPAIR PARTS (WTCV)	2,100	Pending review of requirements.
TOTAL WITHHELD:	42,150	

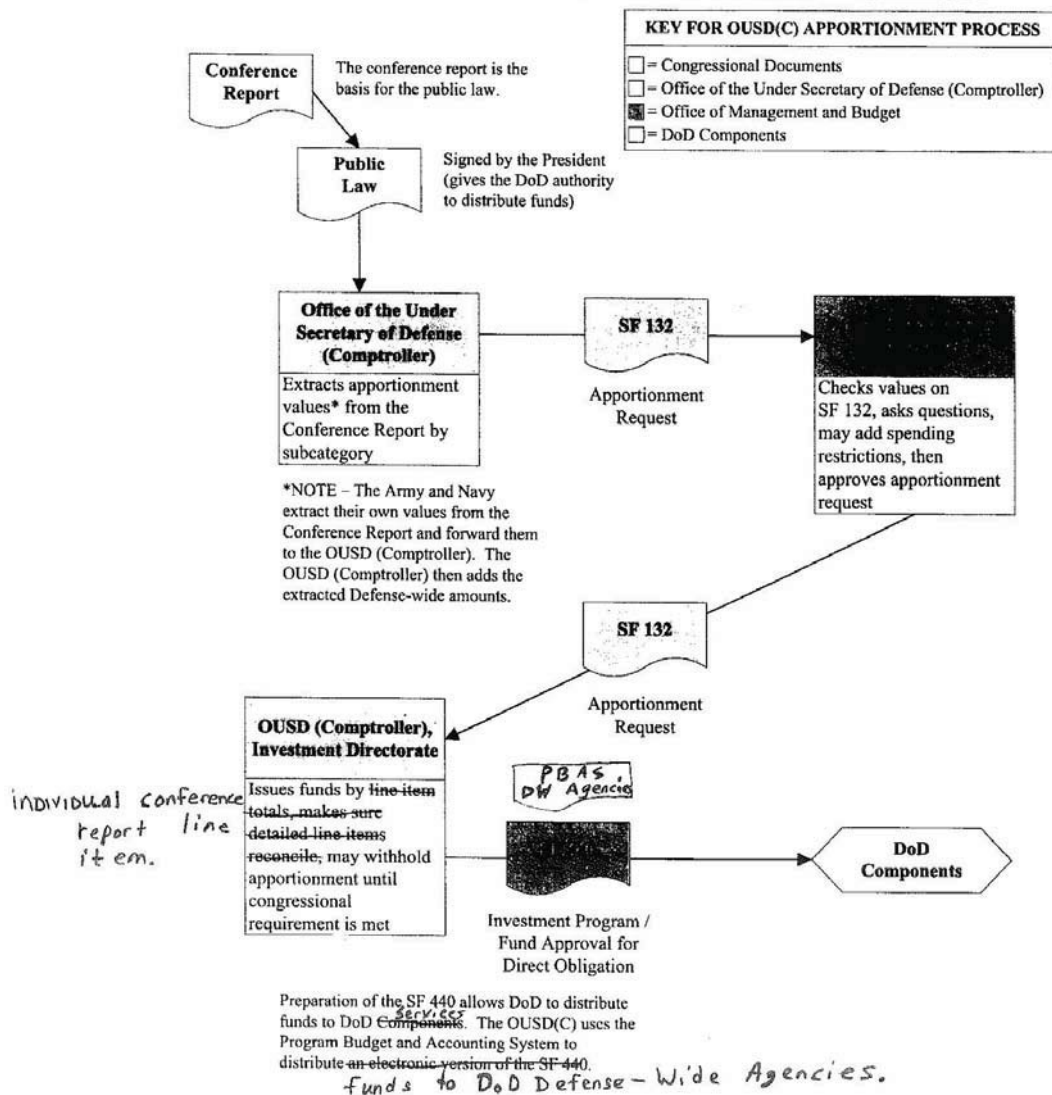
b

INVESTMENT PROGRAM/FUND APPROV		OR DIRECT OBLIGATION (\$ IN THOUSANDS)											
TO: As: Secretary of the Army (FM&C)		PROGRAM YEAR:				APPROPRIATION: Procurement of W&TCV, Army							
LINE ITEM TITLE	PROGRAM VALUE				FUNDING						WITHHELD		
	PREVIOUSLY APPROVED		REVISED APPROVED		PREVIOUSLY APPROVED		THIS CHANGE		REVISED APPROVED				
	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	Qty	Amt	
BRADLEY BASE SUSTAINMENT		41,108		91,108		37,908		50,000		87,908		3,200	
STRYKER		881,249		1,061,249		878,449		180,000		1,058,449		2,800	
CARRIER, MOD				62,000				62,000		62,000			
M1 ABRAMS TANK (MOD)		190,775		443,475		190,775		252,700		443,475			
ARMOR MACHINE GUN, 7.62MM M240 SERIES		14,148		32,148		14,148		18,000		32,148			
MACHINE GUN, 5.56MM (SAW)		80		3,580		80		3,500		3,580			
MORTAR SYSTEMS		200		15,200		200		15,000		15,200			
M107, CAL. 50, SNIPER RIFLE		9,656		10,656		9,656		1,000		10,656			
5.56 CARBINE M4		3,215		66,215		3,215		63,000		66,215			
COMMON REMOTELY OPERATED WEAPONS STATION				75,000				75,000		75,000			
M4 CARBINE MODS		14,817		89,817		14,817		75,000		89,817			
SQUAD AUTOMATIC WEAPON (MOD)		3,095		7,595		3,095		4,500		7,595			
MEDIUM MACHINE GUNS (MODS)		7,089		16,089		7,089		9,000		16,089			
M16 RIFLE MODS		1,970		11,560		1,970		9,590		11,560			
SMALL ARMS (SOLDIER ENH PROG)		9,681		14,681		9,681		5,000		14,681			
Phalanx Mods				36,900				36,900		36,900			
APPROPRIATION TOTAL		1,372,949		2,233,139		1,330,799		860,190		2,190,989		42,150	
<p>GUIDANCE: This action releases funds of Title IX GWOT in FY 2006 DoD Appropriation Act, P.L. 109-148, for execution. Funds availability is contingent upon receipt of a signed apportionment document and compliance with DNI direction on applicable classified apportionment documents. The total amount for the appropriation shown in the Revised Approved Program Funding columns of this document represents a limitation subject to provisions of section 1517 of 31 U.S. Code, the Anti-Deficiency Act.</p>													
APPROVED: Comptroller		DATE:		APPROVED:			DATE:			AUTHORIZATION # 06/08-2 - R			

FORM 440, 1 Sep 89

EXPLANATION OF GRAM/FUND BALANCE		
APPROPRIATION: Procurement of W&TCV, Army		
Procurement of W&TCV, Army 06/08-2		
PROGRAM	AMOUNT	WITHHOLD RATIONALE
ABRAMS TANK TRAINING DEVICES	3,550	Pending review of requirements.
BFVS SERIES (MOD)	22,000	Pending review of requirements.
INDUSTRIAL PREPAREDNESS	8,500	Pending review of requirements.
SPARES AND REPAIR PARTS (WTCV)	2,100	Pending review of requirements.
BRADLEY BASE SUSTAINMENT	3,200	Pending review of requirements.
STRYKER	2,800	Pending review of requirements.
TOTAL WITHHELD:	42,150	

DRAFT REPORT



Page 27

DRAFT REPORT FOR OFFICIAL USE ONLY

Enclosure (3)



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 13 2008

(Program/Budget)

**MEMORANDUM FOR THE OFFICE OF THE DEPUTY INSPECTOR GENERAL
FOR AUDITING (ODIG-AUD)**

**SUBJECT: DoD Components' Use of Global War on Terror Supplemental Funding
Provided for Procurement and Research, Development, Test, and
Evaluation (Project No. D2006-D000AE-0241.002)**

This is an addendum to my letter of October 6, 2008 regarding the subject ODIG review of funds management of Global War on Terror Supplemental for Procurement and Research, Development, Test, and Evaluation (RDT&E). This addendum serves to clarify discussion between your staff and this office at the October 9, 2008 meeting in the Pentagon.

In the meeting, your staff indicated that it is difficult for the ODIG to track funds releases to the Components for execution for sub-P-1 and R-1 lines, when the lines have been rolled into an existing P-1 and R-1 budget structure. The situation arises when the Congress appropriates funds into non-existent funding lines, and the Comptroller staff, working with the executing Components, align the funds into existing program lines. This does not happen often, but when it does, it is a necessary action to ensure that the funds go to the correct destination, can be tracked during execution, and will not cause an administrative or contractual obstruction. At the meeting, your staff pointed out a situation in the FY 2006 House Appropriations conference report, where all of the funding for the Navy's AH-1W helicopter procurement program (AH-1W Increased Survivability, \$6.6 million; AH-1 Turned Exhaust, \$15.9 million; and AH-1 Turned Exhaust (spares), \$1.3 million) were merged into one budget line, the Navy's "AH-1W Series" project line in Aircraft Procurement, Navy.

Your staff would have preferred that we issue the funds as reflected in the conference report, in three distinct budget lines. While we understand that it would be easier for your staff to track the funding if we had released the \$23.8 million in the three separate funding lines, the administrative fact is that this would have created unreasonable administrative burden on the Navy's program office, possibly including changes to production contracts, delaying obligations, and imposing problems in tracking obligations and expenditures for the AH-1 program. The Navy program office was fully

aware of the congressional intent, and executed the funds as directed by the Congress, despite the fact that the funds were issued in one budget line item.

We have a similar problem in FY 2009, where the Congress appropriated \$56.0 million for "Dry Support Bridge". Such a project budget line does not exist, and the Army has requested that this office realign the funds to the existing "Tactical Bridging" program line for execution. The Army plans to follow congressional intent when executing the funds, but needs the funding moved to the correct Other Procurement, Army (OPA) budget line to ensure proper execution. We plan to do the same for the \$4.855 million enacted for "Tactical Radios", by realigning the funds to the OPA "Radio, Improved HP (COTS) Family" budget line. Again, congressional intent will be adhered to. Furthermore, given that the guidance section of the SD-440 funds release document specifically makes reference to the Public Law, where the funds were enacted, we do not believe that further clarification is necessary for the program office to follow congressional direction.

If my clarification with regards to funds control of GWOT funds are not clear, I am available at your convenience to further discuss. My point of contact on this subject is Cheryl Farley (703) 697-9431.



Roberto Rodriguez
Director
Investment Directorate

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

OCT 21 2008

MEMORANDUM FOR Department of Defense Inspector General, ATTN:
Mr. John E. Meling, 400 Army-Navy Drive, Arlington, Virginia 22202-4704

SUBJECT: Response to Audit of DoD Components' Use of Global War on Terror
Supplemental Funding Provided for Procurement and Research, Development, Test
and Evaluation

1. Reference: Memo, The Office of the Deputy Inspector General (DoDIG), subject: Audit of the DoD Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation Draft Report (Project Code D2006-D000AE-0241.002), 27 August 2008.
2. Enclosed is our response to the DoDIG Draft Report. We concur with the recommendations in the report.
3. POC for this action is MAJ John Roub. He can be reached at 692-4773.

A handwritten signature in black ink, appearing to read "Peter E. Kunkel", is written over a circular stamp or seal.

Peter E. Kunkel
Acting Assistant Secretary of the Army
(Financial Management and Comptroller)

Project: D2006-D000AE-0241.002

Audit Location: The Investments Directorate, Assistant Secretary of the Army
(Financial Management and Comptroller)

Objective Designation: 2

Objective Title: Financial Controls Over the Use of GWOT Supplemental Funding

Objective: Is the Army using adequate controls over the use of Global War on Terror (GWOT) supplemental and bridge funding provided for procurement and RDT&E?

Conclusion:

The Army did not consistently maintain an audit trail in accordance with DoDFMR 7000.14R, Vol 1, Ch.3, "Accounting Systems Conformance, Evaluation, and Reporting". This regulation requires an audit trail to enable Army budget officers to track and report accurately obligations against each funding source.

The Army did not separate GWOT supplemental and bridge funds from annual appropriations and other supplemental funds as stipulated in DoDFMR 7000.14R, Vol 12, Ch. 23, "Contingency Operations". This requirement enables budget officers to track and report accurately the obligations against each funding source. The Army does have a draft standard operating procedure (SOP) for capturing and reporting procurement and RDT&E costs in support of contingency operations but it does not require budget officers to establish a special program code to differentiate among funding sources.

Additional Comments: None

Recommendations(s):

Recommendation 2a: That the Army revise the draft SOP to require that budget officers separately identify supplemental, bridge and annual appropriated funds in their accounting systems. This will enable budget officers to track and report accurately obligations against each funding source and to conform to the requirements stipulated in DoDFMR 7000.14R, Vol 12, Ch. 23, "Contingency Operations".

Action taken or planned: Concur. The Army currently is revising the SOP on reporting of investment contingency operations costs to require the addition of accounting codes that differentiate among sources of funds for all investment transactions. We plan to complete this by 31 December 2008.

Recommendation 2b: That the Army direct budget officers to comply with the audit trail requirements of DoDFMR 7000.14R, Vol 1, Ch. 3, which requires that financial transactions be traceable to individual source records. This will enable budget officers to obligate, track and report their use of GWOT funds.

Action taken or planned: Concur. The Army is working to ensure that audit trail measures in place for financial transactions associated with base funding are replicated for transactions associated with supplemental funding. We plan to complete this by 31 December 2008.

Department of the Navy Comments



THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

29 Sep 08

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: REVIEW OF REPORT ON DOD COMPONENTS' USE OF GLOBAL WAR
ON TERROR SUPPLEMENTAL FUNDING PROVIDED FOR
PROCUREMENT AND RESEARCH, DEVELOPMENT, TEST, AND
EVALUATION (PROJECT NO. D2006-D000AE-0241.002)

Thank you for the opportunity to comment on the report on the DoD Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation. Per your request, my responses to recommendations 3 and 4 are below.

Recommendation 3:

The Director, Office of Budget, Operations Division, Assistant Secretary of the Navy (Financial Management and Comptroller) finalize and issue standard operating procedures to require Navy budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to enable budget officers to accurately track and report obligations against each source, in accordance with DoD Financial Management Regulation 7000-14-R, Volume 12, Chapter 23.

Response:

Non-Concur. The ASN(FM&C) has issued guidance on the capturing and reporting of contingency operating costs in the various accounting systems utilized by the Department of the Navy. I am concerned, however, that the DoDIG has misconstrued the direction and intent of the FMR, Volume 12, Chapter 23. The FMR does not require the separate identification of supplemental, bridge, and annual appropriated funds in the accounting systems. It does, however, require a reporting of all incremental costs incurred as part of a contingency operation, regardless of fund source. Issuing guidance strictly to capture the distribution, obligation, and expenditure of supplemental funding provided by the Congress to support contingency operations would result in non-compliance with the FMR and would not provide an accurate record of the total incremental costs of the contingency operation. The guidance promulgated by ASN(FM&C) provides for the reporting and tracking of all costs, regardless of source.

Recommendation 4:

The Deputy Commandant for Programs and Resources develop and issue standard operating procedures to require budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to enable budget

officers to accurately track and report obligations against each source, in accordance with DoD Financial Management Regulation 7000-14-R, Volume 12, Chapter 23.

Response:

Non-Concur. The Assistant Secretary of the Navy (Financial Management and Comptroller) is responsible for financial management for both the Navy and the Marine Corps. As such, I non-concur for the same reasons described in my response to recommendation 3. The policy and procedures promulgated by the ASN(FM&C) and referenced in the response to recommendation 3 also apply to the Marine Corps and are sufficient for the capture and reporting of the costs of contingency operations. The Deputy Commandant for Programs and Resources may issue further, non conflicting guidance, if deemed necessary.

My point of contact for this matter is James Moser, FMB-22, who can be reached at (703) 692-1765.



Douglas A. Brook

Marine Corps Comments



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:
6AE-0241
RFR-80
3 Oct 08

MEMORANDUM FOR PRINCIPAL DIRECTOR FOR ACQUISITION,
ACQUISITION AND CONTRACT MANAGEMENT, OFFICE OF
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: Department of Defense Inspector General Draft Report
D-2006-D000AE-0241.002, "DoD Components' Use of Global
War on Terror Supplemental Funding Provided for
Procurement and Research, Development, Test, and
Evaluation," dated August 27, 2008

Ref: (a) DODIG memo of August 27, 2008

Encl: (1) Marine Corps comments

1. In accordance with reference (a), the Marine Corps has reviewed the subject draft report and provides comments at the enclosure.
2. Point of contact for questions concerning this matter is Mr. Charles Keith Dove, email charles.dove@usmc.mil or phone (703) 614-4500, DSN 224-2595.

A handwritten signature in black ink, appearing to read "C. K. Dove".

C. K. DOVE

By direction of the
Commandant of the Marine Corps

Department of Defense Inspector General Draft Report
D-2006-D000AE-0241.002, "DoD Components' Use of Global
War on Terror Supplemental Funding Provided for
Procurement and Research, Development, Test, and
Evaluation," dated August 27, 2008

1. Programs and Resources Department, Headquarters Marine Corps, and the Marine Corps Systems Command (MCSC) have reviewed the draft report. The following technical comments are provided:

a. The data points for this audit were all prior to FY 2007. Early in FY 2007, Marine Corps Systems Command Deputy Commander for Resource Management changed the practice of mixing baseline funds and Bridge and Full Supplemental funds for discreet requirements. Prior to this change, when Supplemental dollars fell short due to emergency requirements for the War effort, baseline funding was reprogrammed to make up for the shortfall. Our general practice now is to identify GWOT sources for GWOT reprogramming requirements. It should be noted that at no time were Supplemental dollars added to the baseline for programs of record.

b. The following system of Internal Controls allows MCSC to effectively track all appropriations received in any given year and minimize the risk of inappropriate use of funds.

- i. Beginning in FY 2005 each type of funding (Baseline, Bridge and Full Supp for PMC and PANMC) was assigned a different line of accounting. Separation was achieved by the use of a six digit fund function code (FFC). In addition, in FY 2006 Headquarters Marine Corps directed a Special Interest Code (SIC) method to track all GWOT funding.
- ii. During the allocation process, appropriation managers code each GWOT appropriation with the "SF0" SIC, as well as the FFC. When the program budget analysts code the transaction in the accounting system, they verify the SIC to ensure the funding is actually in support of a GWOT effort and the FFC remains intact.
- iii. This "double check" procedure not only ensures that execution data is coded correctly, it also helps to quickly identify unintended human errors that may occur.

Encl (1)

Department of Defense Inspector General Draft Report
D-2006-D000AE-0241.002, "DoD Components' Use of Global
War on Terror Supplemental Funding Provided for
Procurement and Research, Development, Test, and
Evaluation," dated August 27, 2008

2. In response to Recommendation 4 of the draft report, the following response is provided:

Recommendation 4. DODIG recommends that the Deputy Commandant for Programs and Resources, Headquarters Marine Corps and the Director, Financial Management Directorate, Washington Headquarters Services develop and issue standard operating procedures to require budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to enable the budget officers to accurately track and report obligations against each funding source, in accordance with DoD Financial Management Regulation 7000.14-R, Volume 12, Chapter 23.

Marine Corps Response: Concur. The Marine Corps does separately identify supplemental, bridge, and annual (baseline) appropriated funds in the accounting system for investment appropriations. Obligations against each funding source are tracked for these appropriations.

Beginning in Fiscal Year 2009, the Marine Corps intends to allocate Operations & Maintenance, Marine Corps / Operations & Maintenance, Marine Corps Reserve (OMMC/OMMCR) funds to budget officers separately by funding source and require them to obligate separately by funding source.



UNITED STATES MARINE CORPS
MARINE CORPS SYSTEMS COMMAND
2200 LESTER ST
QUANTICO, VA 22134-6050

IN REPLY REFER TO:
7300
DRM
2 Oct 08

From: Commander, Marine Corps Systems Command
To: Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA
22202-4704

Subj: DOD COMPONENTS' USE OF GLOBAL WAR ON TERROR SUPPLEMENTAL
FUNDING PROVIDED FOR PROCUREMENT AND RESEARCH, DEVELOPMENT,
TEST, AND EVALUATION (PROJECT NO. D2006-D000AE-0241.002)

Ref: DoDIG Memorandum for Distribution dtd 27 Aug 2008

1. As requested by the reference, the following Marine Corps Systems Command's response is provided. The subject audit findings were as follows: Marine Corps budget officers at program offices did not separate GWOT Supplemental and bridge funds from annual and other supplemental funds in the accounting system for 10 of the 40 Marine Corps sample dollar points we reviewed.

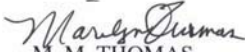
2. The data points for this audit were all prior to FY 2007. Early in FY 2007 Marine Corps System Command Deputy Commander for Resource Management changed the practice of mixing baseline funds and Bridge and Full Supplemental funds for discreet requirements. Prior to this change, when Supplemental dollars fell short due to emergency requirements for the War effort, baseline funding was reprogrammed to make up for the shortfall. Our general practice now is to identify GWOT sources for GWOT reprogramming requirements. It should be noted that at no time were Supplemental dollars added to the baseline for programs of record.

3. The following system of Internal Controls allows MCSC to effectively track all appropriations received in any given year and minimize the risk of inappropriate use of funds.

- a. Beginning in FY 2005 each type of funding (Baseline, Bridge and Full Supp for PMC and PANMC) was assigned a different line of accounting. Separation was achieved by the use of a six digit fund function code (FFC). In addition, in FY 2006 Headquarters Marine Corps directed a Special Interest Code (SIC) method to track all GWOT funding.

Subj: DoD Components' Use of Global War on Terror Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation (Project No. D2006-D000AE-0241.002)

- b. During the allocation process, appropriation managers code each GWOT appropriation with the "SF0" SIC, as well as the FFC. When the program budget analysts code the transaction in the accounting system, they verify the SIC to ensure the funding is actually in support of a GWOT effort and the FFC remains intact.
- c. This "double check" procedure not only ensures that execution data is coded correctly, it also helps to quickly identify unintended human errors that may occur.


M. M. THOMAS
Deputy Commander
By direction

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



OCT 02 2008

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE (DIRECTOR, REPORT FOLLOWUP &
GOVERNMENT ACCOUNTABILITY OFFICE LIAISON)

SUBJECT: Follow-up on OIG Report No. D2006-D000AE-0241.002 DoD
Components' Use of Global War on Terror Supplemental Funding Provided
for Procurement and Research, Development, Test, and Evaluation

Recommendation 4 of subject OIG Report, asks that the Director, Financial Management Directorate (FMD), Washington Headquarters Services (WHS), develop and issue a standard operating procedure. The standard operating procedure will require budget officers to separately identify supplemental, bridge, and annual appropriated funds in their accounting systems to accurately track and report obligations against each funding source, in accordance with DoD Financial Management Regulation 7000.14R, Volume 12, Chapter 23.

WHS concurs with recommendation 4 and anticipates that the standard operating procedure, issued in the form of an Administrative Instruction, will be ready for signature by March 2009.

The point of contact for this action is Mr. Bill Berry, 703-696-4555.

Albert C. Ellett
Acting Director

cc:
Director, FMD
Director, P&ED
General Counsel for WHS and PFPA



Inspector General Department of Defense

